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International Specialty Products Inc.
1996 Annual Report

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DISCLOSURE INC.

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ABOVE BEYOND

Committed to Serving Our Customers...Above and Beyond Their Expectations

ISP Product Examples	*Function*
OMNIREZ™ 2000; H_2OLD® EP-1; GANTREZ® ES, SP, A	Hairspray fixative
GAFQUAT®, STYLEZE™ CC-10, PVP/VA S-630	Hair fixative
PVP/VA W, E, and I	Hair fixative
POLECTRON® 430; SURFADONE® LP	Opacifier; Foam stabilizer and viscosity modifier
STABILEZE® 06, QM, XL-80	Thickener and formulation stabilizer
GAFQUAT®; ESCALOL® HP-610	Conditioning agent; Hair protectant
ESCALOL®; GANEX®	UV absorption; Water-proofing agent
CERASYNT®; CERAPHYL®; GERMALL®	Emulsifier; Emollient; Preservative
ALLANTOIN	Anti-irritant and skin protectant
PEARL-GLO®, LUSTRA-PEARL®, SPECTRA-PEARL®	Provide color, luster, opacity, and pearlescence
PLASDONE®; POLYPLASDONE®	Tablet binder; Tablet disintegrant
GANTREZ® MS-955	Adhesive
PVP-IODINE	Provides a safe, stable iodine disinfectant
GANTREZ® S-97 BF	Tartar control
FERRONYL® DIETARY IRON	Pharmaceutical grade iron supplement
AGSOLEX®, AGRIMER®	Inert ingredients that promote dispersion and adherance
POLYCLAR® 10, POLYCLAR® SUPER R	Clarifying and stabilizing agent
POLYCLAR® V, ULTRAFINE, VT	Clarifying and stabilizing agent
BUTANEDIOL	Monomer building block
RAPI-CURE® VINYL ETHERS; V-PYROL®; V-CAP™	Reactive diluent; Crosslinker; Monomer building block
PVP, PVP/VA	Base resin for water-soluble adhesives
GAFTEX®; SURFADONE®	Dye transfer inhibitor; Wetting agent
PVP K90	Photoresist and binder
MICROPURE® EG, MICROPURE® ULTRA II	Carrier solvent
PRINTSOLVE®	Cleaner used to deflux printed circuit boards
PREPRITE™, FOAMFLUSH®, PARTSPREP®	Solvent
MICROPOWDER® IRON	Highly pure, submicron iron source
COLORED ROOFING GRANULES	Provides weather protection and aesthetics
ORIGINAL FAST DRY™ TCM	Quick drying, high performance tennis court surface
GAF® FILTRATION SYSTEMS	Macroscopic bag filtration systems for liquids
ACCURATE®1; SENTINEL® RING, SNAP RING®	High efficiency filter bag; Leak-proof ring seal systems
RAD-SURE®; DOSE-MAP®	Blood irradiation indicators; Dosimetry systems
PERM®, GAFCHROMIC®	Electronic recording media

About the Company

International Specialty Products Inc. (ISP) is one of the world's premier specialty chemicals companies. The Company has approximately 2,700 employees at more than 70 locations, including manufacturing facilities, research laboratories, and sales and customer service offices throughout the world, serving customers in more than 90 countries.

The Company manufactures four major groups of products — specialty chemicals, mineral granules, filter products and advanced materials — and holds a significant market share in each of these principal product groups.

In its largest business segment, ISP produces a broad spectrum of specialty chemicals, which have a wide range of applications, in such markets as pharmaceuticals, hair and skin care, plastics, agricultural, coatings and adhesives. The Company's products, while often representing a relatively small portion of customers' production costs, generally constitute key ingredients in the end products in which they are used. The business is characterized by an emphasis on technology, research and development, marketing and customer service. The Company believes it has been able to sustain its market share positions for its specialty chemicals by establishing and maintaining long-term relationships with its customers and working closely with them to develop chemicals tailored to their specific needs.

ISP's mineral products business manufactures ceramic-coated colored roofing granules, which are produced from rock deposits that are mined and crushed at the Company's three quarries and colored using a proprietary ceramic coating process. The Company's granules are sold primarily to the North American roofing industry for use in the manufacture of asphalt roofing shingles, for which they provide weather resistance, decorative coloring and heat deflection.

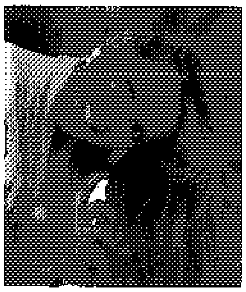
The Company manufactures filter products, consisting of pressure filter vessels, filter bags and filter systems designed for the treatment of process liquids primarily in the paint, automotive, chemical, pharmaceutical, petroleum and food and beverage industries.

ISP manufactures a variety of advanced materials, consisting of high-purity carbonyl iron powders which are used in a variety of advanced technology applications for the aerospace and defense, electronics, powder metallurgy, pharmaceutical and food and beverage industries.

ISP's stock is traded on the New York Stock Exchange under the symbol "ISP".

SPECIALTY CHEMICALS

PERSONAL CARE

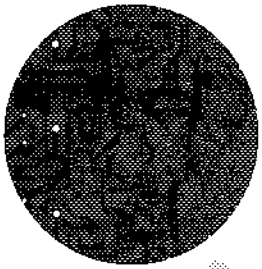


	Customer Products or Applications
Hair Care	Hairsprays Styling gels Mousses Shampoos Two-in-one shampoos Conditioning rinses
Skin Care	Sunscreens Body and facial moisturizers Shaving creams Eye shadow, lipsticks

PHARMACEUTICAL, AGRICULTURAL AND BEVERAGE

Pharmaceutical	Tablets and capsules Denture adhesives Surgical scrubs and antiseptic preparations Tartar control toothpastes Iron/Multivitamin supplements
Agricultural	Crop protection and treatment products
Beverage	Beer and fruit juices Wine

INDUSTRIAL



Plastics & Elastomers	PBT plastics for automotive, appliances
Coatings & Adhesives	Radiation curable coatings for fiber optics, flooring, and inks Glue sticks, hot melt adhesives
Soaps & Detergents	Laundry detergents, hard surface cleaners
Electronics	Cathode ray tube coatings for televisions, computer monitors Photoresist strippers and silicone wafers
Engineered Products	Printed circuit boards Non-toxic paint strippers; metal degreasers
Powder Metallurgy	High performance pressed metal parts

MINERAL PRODUCTS

Asphalt roofing shingles

Tennis courts

FILTERS AND ADVANCED MATERIALS

FILTERS

Chemicals, paints, automotive, food and beverage, cosmetics, pharmaceuticals

ADVANCED MATERIALS

Medical	Irradiation indicators
Printing & Imaging	Instant recording film for government applications

Financial Highlights

(Thousands, except per share amounts)	**1996**	1995	1994
Net sales	**$ 716,481**	$ 689,002	$ 600,047
Operating income	**$ 136,024**	$ 127,096	$ 99,245
EBITDA [1]	**$ 206,175**	$ 188,376	$ 147,313
Income before income taxes and extraordinary item	**$ 125,967**	$ 106,102	$ 72,484
Income before extraordinary item	**$ 80,663**	$ 67,375	$ 45,752
Net income	**$ 80,663**	$ 67,375	$ 44,515
Earnings per common share:			
Income before extraordinary item	**$ .83**	$ .68	$ .46
Net income	**$ .83**	$ .68	$ .45

[1] EBITDA represents earnings before income taxes and extraordinary item, increased by interest expense, depreciation and goodwill amortization.

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FELLOW SHAREHOLDERS:

1996 was another all-time record year for ISP, with per share earnings having increased by more than 20%. ISP finished the year with its twelfth consecutive quarter of increased year-to-year operating income and its eleventh consecutive quarter of increased year-to-year per share earnings. Based upon ISP's performance this past year, the Company entered 1997 with reason to expect that, barring unforeseen circumstances, this will mark ISP's fourth consecutive year of double-digit earnings growth.

1996 FINANCIAL RESULTS

For the 12-month period ended December 31, 1996, net income was a record $80.7 million (83 cents per share) compared with $67.4 million (68 cents per share) in 1995, with the increase attributable to increased sales, higher operating and other income, and lower interest expense.

Operating income for 1996 was a record $136 million compared with $127.1 million in 1995,

Samuel J. Heyman (left), Chairman of the Board and Chief Executive Officer, and Peter R. Heinze (right), President and Chief Operating Officer.

with the increase primarily attributable to improved operating results in the Company's specialty chemicals business, partially offset by lower filter products results. Increased operating income in the specialty chemicals segment came as a result of increased revenues and higher gross profit margins, partially offset by higher selling, general and administrative expenses, the latter including double-digit increases in expenditures for research and development and international marketing associated with the Company's new product and geographic expansion programs, respectively.

Company sales in 1996 were a record $716.5 million, compared with $689 million in 1995. The growth in revenues reflected increased sales in all geographic regions, partially offset by the unfavorable effect of the stronger U.S. dollar in Europe, Japan, and other areas of the world.

Operating income in both 1996 and 1995 was reduced by noncash charges of $21.7 million, resulting from goodwill amortization ($13.2 million in each period) and stepped-up depreciation ($8.5 million in each period), both associated with the acquisition of the Company's former parent, GAF Corporation, in a 1989 management-led buyout. Without these noncash charges, operating income for 1996 and 1995 would have been $157.7 million and $148.8 million, respectively.

Given the magnitude of the Company's noncash charges, which parenthetically are strictly historical in origin, and the fact therefore that ISP's book earnings substantially understate the true cash earnings power of the Company, we believe that ISP's results, without adjustment for these accounting charges, are a more accurate reflection of the Company's performance. Without these charges, pro forma net income in 1996 was $99.3 million ($1.02 per share) compared with $86.1

million (87 cents per share) in 1995. Another helpful measure of performance which similarly excludes these noncash charges, EBITDA, representing profit before taxes increased by interest expenses, depreciation, and goodwill amortization, was $206.2 million in 1996 compared with $188.4 million in 1995.

SIGNIFICANT DEVELOPMENTS

ISP's impressive financial performance was accompanied by a host of other accomplishments, which not only contributed to the Company's excellent performance last year but promise to play an important role in what we expect will be an even better year in 1997.

These achievements include acceleration of ISP's research and development programs which resulted in a number of new product introductions this past year, continuation of the Company's geographic expansion program with new sales and marketing operations opened in Sofia, Bulgaria and Hyderabad, India, the complete retrofitting of the Company's microcrystalline cellulose manufacturing facility in India and the promising market introduction of that Indian venture's CELEX™ 101 tablet binder product, continued progress in connection with the Company's ongoing reengineering effort, and the further strengthening of ISP's balance sheet as a result of the Company's strong cash earnings, which enabled ISP to reduce its net debt-to-total capitalization to 26.6% at the end of 1996.

Developments worthy of special mention are as follows:

(1) ISP's Above and Beyond Program

ISP launched an initiative this past year which we have termed ABOVE AND BEYOND. While the program is more fully articulated later in this Report, suffice it to say that it, while in part a continuation of the Company's corporate-wide reengineering program begun several years ago, marks not only an acceleration of that program but so also a shift in its primary emphasis to the entire area of customer service, with the principal objective of delivering to our customers innovative technology, exceptional service, and performance enhancing products "on time, every time."

As part of the program, ISP has made a substantial capital commitment to upgrade its management information systems around the globe with a view toward developing the most efficient processes for quality measurement as well as providing customers with timely information concerning product availability, performance characteristics of the Company's products, etc. In a similar vein, in order to better understand our customers' needs, ISP established a new pharmaceutical applications laboratory, which is designed to simulate processes utilized by our customers in order to expedite trials as well as to provide them with more comprehensive technical support.

Finally, the Company's reengineering program continues to focus on manufacturing cost reductions and improved efficiencies in virtually every aspect of its operations. As evidence of the success of these efforts, ISP's gross margins have now increased from 38.7% in 1994 to 39.8% in 1995 to 41.5% in 1996, with further, but most likely less dramatic, improvement projected for 1997; and

(2) New Products, Applications, and Market Developments

ISP's research and development effort continued this past year as one of the Company's highest priorities, with R&D expenditures increasing by more than 15% over year-ago levels. Important new product and market developments were as follows:

(a) Personal Care

(i) The Company's OMNIREZ™ 2000, a new hairspray resin, has received a very favorable response from customers. Designed to enable hairspray manufacturers to comply with anticipated changes in VOC regulations, the product demonstrates performance characteristics comparable to ISP's 80% VOC products, GANTREZ® A-425 and GANTREZ® SP-215;

(ii) GERMALL® PLUS, a second generation GERMALL® product, was introduced by ISP Sutton Laboratories as a cosmetic preservative with broad spectrum anti-microbial activity and improved solubility; and

(iii) Following initial success, ISP's marketing alliance with United-Guardian, covering the LUBRAJEL® line of water-soluble lubricants and moisturizers, has been expanded to include the entire Western Hemisphere in addition to previously covered territories, consisting of the Asia-Pacific, Eastern Europe, and certain Western European countries;

(b) Pharmaceutical

ISP launched CELEX™, a microcrystalline cellulose tablet binder which complements the Company's existing family of pharmaceutical excipients, PLASDONE® and POLYPLASDONE®;

(c) Beverage Additives

ISP's beverage additives business, consisting of its family of POLYCLAR® products, registered impressive growth as a result of:

(i) Increased sales in Latin America as new and existing breweries in that region continue to incorporate POLYCLAR® in their processes in order to achieve superior clarity and shelf life;

(ii) A new product, POLYCLAR® ULTRAFINE, developed for use in combination with other wine clarifiers in order to maximize clarity and maintain flavor, color, and bouquet; and

(iii) The first conversion by a major Japanese brewery to POLYCLAR® since obtaining Japanese regulatory approval for this product in 1995;

(d) Industrial

ISP introduced its new vinylcaprolactam product, V-CAP™, whose current applications include UV-curable inks, fiber optic cable coatings and other specialty radiation-curable coatings, and which also serves as an important new building block for polymers and copolymers used for gas hydrate inhibitors in natural gas recovery;

(e) Fine Chemicals

ISP's Fine Chemicals business has registered average annual sales growth of more than 35% since the Company's acquisition of the business in 1993. The Company's state-of-the-art manufacturing facility, located in Columbus, Ohio, has been upgraded in accordance with GMP standards, and ISP is one of only a handful of fine chemicals producers in the United States with the capability to custom manufacture such a wide range of pharmaceutical intermediates and active bulk drugs.

The Company has formed over the last two years a number of alliances with major U.S. pharmaceutical companies for the production of intermediate and active pharmaceutical products, which are either currently in clinical trials for the treatment of cancer, cardiovascular disease, high cholesterol, and AIDS, or are already in existing commercial drug applications for cancer, antibiotics, and anti-inflammatory medications;

(f) Advanced Materials

In response to increased concerns over serious health problems which result from the transfusion of non-irradiated blood products, a number of leading health authorities, including the

American Red Cross and hospitals around the world, are turning to ISP to help address these issues. Utilizing ISP's unique radiochromic dye technology, the Company is now working with a number of customers in various development efforts involving the design of radiation indicators sensitive to various types and levels of radiation;

(g) Medical Imaging Joint Development

The Company entered into a joint development agreement with a major medical imaging supplier, pursuant to which ISP will contribute its diacetylene chemistry and related research services in order to develop in conjunction with its partner a new cost effective medical diagnostic imaging system; and

(h) Mineral Products

The Company's new algae-resistant granules product, for use on asphalt roofing materials in high humidity or densely shaded areas where the growth of algae has been a prevalent problem, is meeting with increasing customer acceptance.

ISP'S SHARE REPURCHASE PROGRAM

ISP's Board of Directors approved the open market repurchase of an additional 1,000,000 shares of the Company's stock last October, ISP having completed previous open market purchase authorizations consisting of a total of 3,500,000 shares over the last two years. While the shares to be repurchased will be held for general corporate purposes, the program represents an expression by our Board of its confidence in the future of our Company and so also its belief that our shares remain undervalued in the market.

PROSPECTS FOR 1997

While ISP continued to perform according to plan this past year, there is still much that we can do to more fully realize the potential of our businesses. To do so, it is important that we continue to make progress on a whole host of areas we are currently addressing. This is especially the case given the extremely challenging environment in which we are now operating as a result of the global slowdown outside the United States, with Japan in recession, Europe in near recession, and East Asia's previously rapid growth beginning to moderate. Moreover, because of a macroeconomic environment characterized by slow growth in end-use demand and low inflation in most parts of the world today, it is unlikely that we will be able to achieve anything meaningful in the way of pricing this year. Finally, when you consider the adverse impact of a stronger U.S. dollar, which over the period of the past 18 months has appreciated against a basket of foreign currencies by almost 15%, it would not be surprising if strong sales growth proves hard to come by.

We intend to focus on continued margin improvement this year through closely managing costs and realizing efficiencies in all our operations, developing new products and applications to help fuel more rapid sales growth, increasing the profitability of the Company's filter products business, and addressing many other areas where we believe we can improve ISP's performance. The good news is that we are already addressing these areas in a very focused way, and, as a result, there is reason to believe that, barring unforeseen circumstances, 1997 will prove to be another record breaking year, ISP's fourth consecutive one of double-digit earnings growth.

ACKNOWLEDGMENTS

We acknowledge with deep appreciation our hard working, loyal, and dedicated employees who approach their responsibilities and share the objectives of senior management with such an extraordinary degree of intensity. In addition to the Company's Board of Directors and outside professionals to whom we are grateful for their steadfast support and wise advice and counsel, we especially wish to thank our customers, whose business we depend upon, whose long-standing loyalty we appreciate, and for whom we at ISP constantly strive to reciprocate in our dedication to providing products of the highest quality at the most competitive prices.

It was because of our commitment to ISP's customers that we launched this past year the Company's ABOVE AND BEYOND initiative, which is designed to enable us to exceed our customers' expectations in all facets of the Company's operations, and its successful implementation is our highest priority this year.

We look forward to a successful 1997 and a year filled with continued accomplishments.

Sincerely,

Samuel J. Heyman
Chairman of the Board and Chief Executive Officer

Peter R. Heinze
President and Chief Operating Officer

March 14, 1997

ACKNOWLEDGMENTS (ADDENDUM)

I am pleased to have the opportunity to welcome to our Company Peter Heinze, who joined ISP this past November as President, Chief Operating Officer, and a member of the Company's Board of Directors. Peter is one of the chemical industry's most outstanding executives, having had an impressive track record of growing specialty chemicals businesses at both BASF and PPG, and we expect that he will make a substantial contribution to the continued growth of our Company.

At the same time, I would express our sincere appreciation to Carl Eckardt, who completed three years of dedicated service to our Company as its President and Chief Operating Officer, in addition to the six years that he served in essentially the same position during the 1980's. Carl helped engineer the significant turnaround in ISP's performance these last three years, and we are delighted that he has assumed his previous position as Executive Vice President, Corporate Development, where he will coordinate our corporate development and acquisition activities.

Samuel J. Heyman

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Review of Operations

International Specialty Products Inc. (ISP) is one of the world's premier specialty chemicals companies. The Company produces a broad range of high value-added specialty products, including specialty chemicals, fine chemicals, mineral products, filter products and advanced materials, and markets its products in more than 90 countries throughout the world. The Company has 19 domestic and international manufacturing facilities, which includes two joint venture manufacturing companies —GAF-Hüls Chemie GmbH, in Marl, Germany, and Chemfields Pharmaceuticals Pvt. Ltd., in Nagpur, India.

SPECIALTY CHEMICALS

ISP manufactures a broad spectrum of specialty chemicals having numerous applications in consumer and industrial products. The Company uses proprietary technology to convert a number of raw materials, through a chain of one or more processing steps, into increasingly complex and higher value-added chemical products to meet specific customer requirements. A substantial portion of the Company's specialty chemicals, which include intermediates, solvents, vinyl ethers, and polymers, are derived from acetylene, and the Company believes it produces the broadest line of acetylene derivatives available in the world.

ISP is a major producer of specialty chemicals for use as cosmetic and industrial preservatives through ISP Sutton Laboratories and as ingredients for skin care products including sunscreen intermediates, emollients, and pearlescent pigments through ISP Van Dyk.

The Company produces a number of pharmaceutical intermediates, bulk actives, biological buffers and pheromones, while also offering custom manufacturing services to the pharmaceutical industry, through its fine chemicals business, ISP Fine Chemicals.

ISP's specialty chemicals business is organized by end-use industries into three worldwide, market-oriented business units: Personal Care; Pharmaceutical, Agricultural and Beverage; and Industrial.

Personal Care

ISP produces a wide range of ingredients for the personal care industry which provide many well-known hair care, skin care, toiletry and cosmetic products with their high performance characteristics. ISP's Personal Care business unit consists of two segments, Skin Care and Hair Care, and the business unit is organized in such a way so as to better focus the Company's efforts in these markets.

Skin Care

Through the development of several important new products, the acquisition of both the Van Dyk and Sutton Laboratories businesses, and the creation of a strategic marketing alliance, ISP has significantly strengthened its presence in the skin care market over the last several years.

ISP Van Dyk manufactures a broad range of skin care products, including sunscreen actives, waterproofing agents, pigments, emollients, and emulsifiers. ISP Van Dyk's sunscreen actives, marketed under the ESCALOL® brand name, serve as the primary active ingredient in many of today's most popular sunscreens and are finding application in many other skin care related areas such as lipsticks and facial creams.

ISP Van Dyk's CERAPHYL® line of emollients registered record sales in 1996 as a result of the increased popularity of body washes and body shampoos. The CERAPHYL® family of products provide these popular bath products with their softening and moisturizing characteristics.

ISP Sutton Laboratories produces specialty preservatives, which are marketed predominantly to the cosmetics and personal care industries for use in skin care products such as bath and shower products, infant care, eye makeup, facial makeup and after-shave preparations, and nail products.

Sales of Sutton products, which are marketed worldwide, have increased significantly since ISP acquired the business in 1989, with the growth coming primarily from new products and expansion of its overseas business.

ISP Sutton Laboratories introduced this past year GERMALL® PLUS, a patented product that offers broad spectrum antimicrobial activity and improved solubility. Initial customer reception for the product has been excellent, and the Company expects increased sales in 1997. The Company's SUTTOCIDE® A, a preservative gentle enough for use in infant care products, was formulated in 1996 into a leading brand of baby wipes, and the Company expects continued interest in this product from consumer products companies.

Sutton's product lines include LIQUAPAR® OIL, a liquid preservative whose effectiveness and ease of use makes it uniquely suitable for a broad range of consumer products, and the INTEGRA® family of industrial preservatives designed for use in liquid laundry detergents, fabric softeners, dishwashing liquids, wet pulp processing, and water-based paints and coatings.

The Company entered into an alliance in 1995 with United-Guardian, Inc. to market a line of personal care products in the Asia-Pacific region, Eastern Europe and certain Western European countries, and this marketing alliance was expanded in 1996 to include the Western Hemisphere. The products comprise the LUBRAJEL® family of water-soluble lubricants and moisturizers, which are used in a wide range of skin care applications.

Hair Care

The Company is a leading manufacturer of hair fixative resins through its GANTREZ®, GAFQUAT®, and PVP/VA family of products, which provide hairsprays, mousses, and gels with their strong holding power.

ISP's state-of-the-art laboratory in Wayne, New Jersey, which includes facilities for direct consumer testing of hair care products, has played an important role in the recent development of several significant new products, including:

(1) GANTREZ® A-425, a hairspray polymer developed in 1994 to meet previously enacted 80% VOC restrictions in the U.S. and which is especially well suited for the ethnic hair care market;

(2) ESCALOL® HP-610, a unique hair protectant introduced in 1995 and developed for hair conditioning products. Designed to remain on the hair after rinse-off, ESCALOL® HP-610 protects the hair from the damaging effects of the sun's rays. Several U.S. customers began offering salon formulations incorporating ESCALOL® HP-610 this past year, and the Company expects substantial interest from customers in Latin America and the Asia-Pacific region to develop in 1997. For Europe, the Company has achieved preliminary registration with the European Commission and expects to receive full registration in 1997. The Company is currently working closely with its European customers to ensure quick commercialization once approved;

(3) STYLEZE™ CC-10, a patented styling resin introduced this past year that provides high humidity resistance and excellent combing properties; and

(4) OMNIREZ™ 2000, a high performance hairspray polymer developed in 1995 that has an optimized molecular weight to permit manufacturers to meet even stricter regulatory requirements pertaining to the reduction of volatile organic compounds (VOCs) in the United States. Designed to enable hairspray manufacturers to comply with anticipated 55% VOC restrictions, customers have already incorporated OMNIREZ™ 2000 into a number of their formulations.

Pharmaceutical, Agricultural and Beverage

ISP's products for the pharmaceutical, agricultural and beverage markets provide superior performance characteristics for a substantial number of end-use products while at the same time enabling these products to meet increasingly strict worldwide regulatory requirements.

Pharmaceutical

In the pharmaceutical area, ISP products serve as key ingredients in tablets, injectables, cough syrups, antiseptics, toothpaste, denture adhesives and other oral preparations. ISP's PLASDONE® and POLYPLASDONE® excipients function as the binding agent that holds compressed tablets together and the disintegrant which helps release the active ingredient in a controlled manner, respectively. To complement the Company's PLASDONE® tablet binder, which finds application in the wet granulation method of tablet manufacture, ISP launched in 1996 CELEX™ 101, a microcrystalline cellulose tablet binder used in the direct compression method of tablet manufacture. This product launch came as a result of ISP's move to expand its participation in the pharmaceutical excipients market last year when it acquired a majority interest in a manufacturer of microcrystalline cellulose, Chemfields Pharmaceuticals Pvt. Ltd., in Nagpur, India.

The Company opened a new, state-of-the-art pharmaceutical applications laboratory this past year to expedite customer trials for its CELEX™ product as well as to provide more comprehensive technical support for other ISP products. Staffed by a number of highly trained pharmacists and pharmaceutical scientists, the laboratory enables ISP to demonstrate the effectiveness of its product portfolio in any number of commercial applications while providing a suitable environment to develop and test new products.

Agriculture

ISP is a leading producer of inert ingredients for the agricultural industry, where the Company's solvent and polymer products are used for the formulation of safer and more effective agricultural applications. ISP's AGRIMER® family of polymers and copolymers are integral components in formulations such as granules, tablets, and seed coatings, which serve to make these formulations safer and more effective and to reduce the amount of pesticide required for effective pest control. Two surface active solvents which offer unique surfactant properties, AGSOLEX® 8 and AGSOLEX® 12, after having received EPA approval several years ago, have continued to demonstrate increasing sales since market introduction.

Beverage

ISP has been a leading participant in the beverage industry for many years, with the Company's POLYCLAR® line of products serving to ensure the quality, and extend the shelf life, of beer, wine, and fruit juices. The Company's flagship beverage product, POLYCLAR® 10, is the industry standard for beer clarification, while POLYCLAR® SUPER R has achieved a high level of customer acceptance as a result of its effectiveness in extending the useful life of the end-use products, reducing regeneration losses and enhancing filtration efficiency.

The Company introduced POLYCLAR® ULTRAFINE this past year for use in stabilization blends for the treatment of wine. ISP is aggressively marketing this product throughout Europe and the United States and expects to achieve significant sales in this increasingly important market.

After having received regulatory approval two years ago for the use of POLYCLAR® in Japan, ISP began marketing the product to the world's fourth largest beer market this past year and has already converted one major brewery to the product.

Fine Chemicals

ISP Fine Chemicals produces a variety of fine chemicals sold to the pharmaceutical, biotechnology, agricultural, and performance polymers markets. Its broad range of products includes bulk pharmaceuticals, pharmaceutical intermediates, biological buffers which are used by biotechnology companies in tissue culture media for the production of new pharmaceuticals, and pheromones, which are insect attractants. These products are manufactured at the Company's Columbus, Ohio plant under FDA current good manufacturing practice (cGMP) guidelines.

ISP Fine Chemicals also offers custom manufacturing services for the pharmaceutical, biotechnology, agricultural, and chemical process industries at its technologically sophisticated and highly versatile Columbus facility, providing custom processing capabilities for complex, multi-step chemical reactions.

Industrial

ISP's acetylene-based specialty chemicals business produces numerous specialty polymers and vinyl ethers for use in a wide range of industrial markets such as coatings, adhesives, imaging, detergents, electronics, and metal working. In addition, ISP markets intermediate and solvent products, such as butanediol and N-methyl pyrrolidone (NMP), whose primary applications are for use in high performance plastics, lubricating oil and chemical extraction, electronics cleaning, and coatings.

The Company continued its penetration this past year of the household, industrial and institutional cleaning (HI&I) market with increased sales of its PVP and GAFTEX® polymers for use as dye transfer inhibitors in laundry detergents. Dye transfer inhibitors prevent the deposition of fugitive colors in mixed color washes. This new application follows the successful introduction in 1995 of several GAFTEX® polymers for use in laundry detergents in Europe and the Asia-Pacific region.

ISP continues to develop new industrial applications for its versatile polymer product line. For example, in response to the burgeoning personal computer market, ISP's high molecular weight polymers are being used to increase compatibility between ink-jet inks, papers and transparencies in order to improve print quality. These polymers enable ink-jet printers to produce photo-quality color output comparable to that of a color laserjet printer, increasing the affordability of high quality color printing.

In another new industrial application, the Company has developed a number of specialty polymers used to inhibit the formation of gas hydrate crystals that occur during the processing of natural gas. ISP's products are used at significantly lower levels than traditional gas hydrate inhibitors, enabling natural gas processors to substantially reduce their operating costs. The Company achieved its first commercial sales for this application in Europe in 1996 and expects to increase sales to this market in 1997.

ISP has brought to market over the past several years a family of new environmentally-friendly products, known as Engineered Solvents, to replace chlorinated and other volatile solvents, for use in a variety of industries for cleaning, stripping and degreasing. Sales of the Company's Engineered Solvents continued to increase this past year and are expected to grow at even higher rates as regulatory requirements affecting chlorinated solvents become ever more stringent.

MINERAL PRODUCTS

ISP's mineral products business manufactures ceramic-coated colored roofing granules, which are produced from rock deposits that are mined and crushed at the Company's three quarries and colored using a proprietary ceramic coating process. The Company is one of only two major suppliers of colored roofing granules in North America, with its mineral roofing granules being sold primarily to the North American roofing industry for use in the manufacture of asphalt roofing shingles, for which they provide weather resistance, decorative coloring and heat deflection.

Mineral products sales have benefited from an industry trend toward the increased use of heavy-weight, three-dimensional laminated roofing shingles, which require approximately 60% more granules than traditional three-tab lightweight roofing shingles.

The Company was successful in converting a major customer this past year to its new algae-resistant granules. This breakthrough product offers excellent resistance to algae which tend to form on asphalt shingled roofs in high humidity or densely shaded environs.

ISP's mineral products business is one of the nation's leading producers of a fine granular material, ISP ORIGINAL FAST DRY™ TCM, the same material having been formerly marketed by an ISP customer under the name Har-Tru®, for use in the construction of fast dry, clay-like tennis courts. The Company has been the major supplier of this tennis court material in the northeastern region of the United States for many years and is now expanding its market coverage to the southeastern part of the country as well.

FILTER PRODUCTS

ISP's filter products business manufactures a complete line of filter systems, marketed under the GAF® FILTER SYSTEMS name and consisting of pressure-rated filter vessels and filter bags designed for the treatment of process liquids primarily in the paint, automotive, chemical, pharmaceutical, petroleum, municipal water, and food and beverage industries. ISP is a leading worldwide supplier of bag filtration equipment and has over the past several years developed new, higher value-added bag filtration products, expanded its share of the pressure-rated filter vessels market, and increased the geographic penetration of its business in the United States and Canada as well as the Asia-Pacific and Latin American regions of the world.

The Company has been one of the more innovative leaders in the bag filtration industry, having introduced a number of higher value-added products in recent years, such as the ACCURATE® 1 high efficiency filter bag, which accommodates higher flow rates and has a longer service life than equivalent-rated cartridge filters. The ACCURATE® 1 product is gaining wide acceptance in such diverse liquid filtration applications as paints and coatings; beer, vinegar and edible oils; and a wide variety of process chemicals.

The Company aggressively targeted the pharmaceutical industry this past year with the marketing of its ACCURATE® 1 filter bag for the removal of carbon-based fine particles in a number of different process applications. While pharmaceutical applications have been traditionally dominated by cartridge technology, the Company has demonstrated the effectiveness of its ACCURATE® 1 product at a significantly lower cost and anticipates additional market penetration in 1997.

Over the last two years, the Company expanded production capacity of its filter vessel manufacturing facility in São Paulo, Brazil, opened a new facility in Singapore for the manufacture of bag filtration products, and acquired a Canadian filter vessel manufacturer serving the North American market and a German filter vessel manufacturer serving the European market.

ADVANCED MATERIALS

ISP manufactures a variety of advanced materials, consisting of high-purity carbonyl iron powders, sold under the name MICROPOWDER®, for use in a number of applications for the aerospace and defense, electronics, powder metallurgy, pharmaceutical, and food industries. In addition, the Company's FDA-approved FERRONYL® iron has been widely accepted as an iron supplement in multivitamins and other pharmaceutical products and is widely regarded by medical experts as safer for these uses than iron salts.

ISP's advanced materials business markets a growing range of unique and innovative products, including RAD-SURE®, radiation-sensitive labels which indicate whether hospital blood bags have been properly irradiated, DOSE-MAP®, a product for measuring the radiation distribution of blood devices, and PERM® and GAFCHROMIC® processless electron recording films for a variety of instant imaging, data recording and medical dosimetry applications.

INTERNATIONAL OPERATIONS

As a result of the Company's continued penetration of existing overseas markets and expansion into new ones, ISP's international sales have grown at an average annual compounded rate of more than 15% over the past ten years and now constitute more than 55% of the Company's total specialty chemical sales. This has been accomplished by the continued development of an experienced, technically trained international sales force; the opening of new marketing and sales offices in a number of countries in recent years, including Argentina, Bulgaria, China, Hungary, India, Indonesia, Malaysia, Poland, Russia, Turkey, and Venezuela; and the development of an export business in countries such as Chile, Colombia, Israel, the Philippines, and Vietnam.

Virtually all ISP's specialty chemical and filter product lines are now sold globally, and approximately 80% of ISP's revenues outside the United States are currently generated by the Company's own direct sales force, with the balance of its sales made through a worldwide network of experienced ISP agents and distributors.

QUALITY AND TECHNOLOGY

ISO 9002 certification, an internationally accepted hallmark of quality management and assurance, has been attained in recent years at a number of the Company's manufacturing facilities, including Calvert City, Kentucky; Chatham, New Jersey; Texas City, Texas; Seadrift, Texas; and Sint-Niklaas, Belgium as well as the Company's affiliate, GAF-Hüls Chemie GmbH in Marl, Germany.

ISP initiated its Total Quality Management Process effort in 1994 with the development of a comprehensive quality improvement process for implementation throughout the Corporation. The primary focus of the Company's ongoing efforts has been on enhancing customer satisfaction through a better understanding of the needs of ISP's customers, quickly translating those needs and expectations into rapid delivery, and continuing to improve the quality of its manufacturing and customer service operations. To this end, more than 150 process improvement and breakthrough teams were established at all levels of the Company to address quality and productivity issues. The teams have already succeeded in producing very positive results in terms of improved first pass quality, increased productive capacity, and reduced operating costs as a result of a whole host of operating efficiencies.

ISP's quality improvement process continues to address improving the Company's manufacturing efficiencies and the quality of its products, and the Company is intensifying its customer focus by implementing ABOVE AND BEYOND, a conceptual framework designed to focus the Company's employees on providing our customers added value and a level of service above and beyond customer expectations.

ABOVE AND BEYOND: *Quality in Action*

ISP launched in 1996 its ABOVE AND BEYOND action plan, a Company-wide program whose primary focus is an enhanced commitment to continuously increase quality, improve performance and generally exceed customer expectations in all facets of the Company's operations. The ABOVE AND BEYOND plan envisions no less than a consistently high level of customer satisfaction and service which regularly surpasses that which the customer may otherwise have come to expect. The Company's Leadership Council, which comprises members of the Company's senior management, has developed initiatives and established goals to further this vision and make its full implementation a top priority.

The concept for ABOVE AND BEYOND evolved from several programs that began with the implementation of the Company's Total Quality Management Improvement Process in 1994. These initiatives have improved efficiency and productivity in a wide range of activities, which have led to manufacturing cost reductions, increases in manufacturing capacity, improved inventory control and streamlined sales operations. The ABOVE AND BEYOND action plan builds upon these advances in a concerted effort to reach a new level of customer satisfaction by focusing upon three fundamental principles:

(1) *Innovation*, the ability to create new products of exceptional value and superior quality;

(2) *Service*, a renewed commitment to assure the customer's satisfaction; and

(3) *Performance*, the value that the Company brings to the customer.

ON TIME, EVERY TIME

ISP continues to focus its efforts on maximizing customer satisfaction by seeking to deliver all its products "On Time, Every Time." To meet this critical customer expectation, the Company will build on existing on time delivery initiatives, refine its forecasting capability to better anticipate customers' needs, and continue to improve the coordination of raw material purchases and production scheduling to shorten cycle times and improve delivery performance.

MANUFACTURING

ISP manufactures an ever-increasing range of products, with virtually every product the result of a separate manufacturing process which must meet detailed specifications and standards jointly established with the Company's customers. Moreover, the majority of ISP's products are manufactured through batch processing which requires greater scrutiny and additional resources to ensure that the final product conforms to these rigid specifications and standards. To facilitate this essential task and improve other forms of quality measurement, the Company has implemented *Project Eagle*, a comprehensive program for capturing, processing and analyzing information which can be accessed from one global database.

ISP is implementing a number of other initiatives to increase manufacturing productivity, such as the recent introduction of bar coding to better track the flow of raw materials, work in process, and finished goods. The Company has increased productivity by reducing production cycle times, improving first-pass quality, and

ISP VISION STATEMENT

The ISP Team Strives To Go Above and Beyond
Customer Expectations Through...

Innovative Technology,
Exceptional Service, and
Performance Enhancing Products

That Add Value To Our Customers Globally.

increasing manufacturing yields. Similarly, ISP has been able to increase capacity utilization through expanded use of statistical process control measurement methods and cost effective upgrades of plant infrastructure and equipment.

INTERNATIONAL OPERATIONS

ISP's renewed commitment to quality and customer satisfaction is further demonstrated by the Company's replacement of a majority of its third-party distributors in the Asia-Pacific region with its own internal sales force. Direct selling has enabled ISP to obtain more accurate and timely information about the performance characteristics required by its customers, thereby enhancing the Company's ability to respond to their specific needs.

One recent example of ABOVE AND BEYOND customer service in the Asia-Pacific region involved a hair care customer who wished to develop odorless and colorless hair styling products to meet consumer perceptions that such products were more "natural." To address this customer's particular needs and expectations, ISP modified its manufacturing processes to provide the customer with a clear, odorless high performance hair resin. As an added benefit, ISP's experience with this product has provided it with a potential competitive advantage as demand for similar products emerges in other markets around the world.

In another situation, one of ISP's largest foreign electronics chemical customers, who requires special, high purity solvents, expressed a desire to be able to avoid minor, but potentially costly, atmospheric contamination when drums containing product are opened to discharge the chemical. Working with the customer, ISP succeeded in engineering a new discharge system which prevented this potential contamination.

CUSTOMER SATISFACTION

The increased focus on exceeding customer needs throughout ISP has added a new dimension to the entire area of customer service. In addition to assuming the role of customer advocate within the Company, Customer Satisfaction teams have taken a leadership position in developing practical and cost-effective solutions to provide customers with a competitive advantage in their markets or otherwise facilitate the way in which they do business.

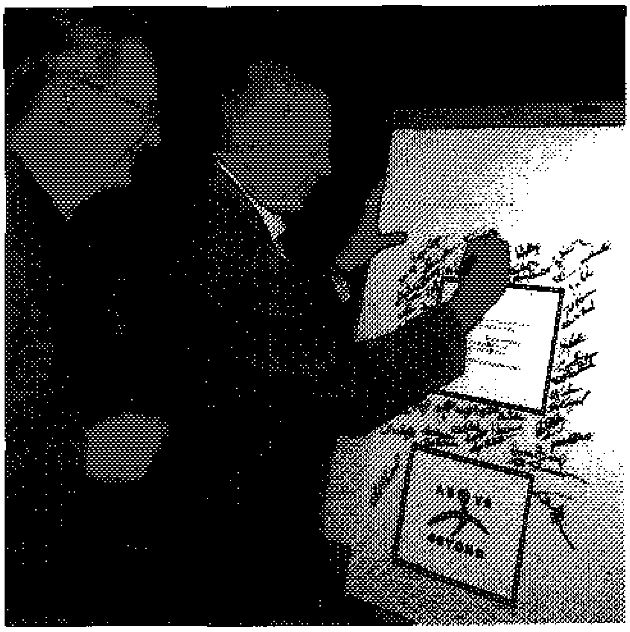
A cross-functional ISP team, for example, recently responded to a customer's need to reduce disposable waste by identifying recyclable shipping containers that could be substituted for disposable ones.

A major personal care customer, in another case, wanted to reduce supply chain and production costs by modifying its own process to use automated liquid blending systems rather than chemicals shipped in individual drums. ISP was able to alter the viscosity of its product, a specialty resin, to conform to the pumping and handling requirements of the customer's new system without any decline in performance of the product. ISP also arranged for a dedicated transport carrier with special equipment to handle the resin, in addition to assisting the customer with engineering support to construct an appropriate loading facility at its plant.

Another example of ABOVE AND BEYOND performance involved a customer who found that while one of ISP's polymers performed well in improving image quality on coated transparencies, it required a special formulation to achieve optimum results. Again, ISP's team was able to modify the performance characteristics of the Company's polymer to meet the customer's specifications.

COMMERCIALIZATION OF NEW PRODUCTS

ISP launched the *Gateway* stage-gate product development process in 1996 to accelerate the commercial introduction of new products. This program enables a team with members from marketing, manufacturing, research and administration to utilize a multidimensional process to transform new ideas into commercial products.



Messrs. Heyman and Heinze join with ISP's senior management in endorsing the Company's Vision Statement.

The overall objectives of the *Gateway* process are to reduce time to market, increase the probability of commercial success, design products for ease of manufacture, and increase the global acceptance of new ISP products. An important aspect of this program is to involve customers directly not only at the initial idea formulation stage but throughout the entire new product development process.

ISP recently opened a new research laboratory capable of simulating the processes used by the Company's customers in the pharmaceutical industry, and is now able to demonstrate the performance of these products in a commercial setting without requiring customers to incur the cost of shutting down one of their own production lines.

QUALITY IN ACTION

ISP's commitment to deliver its products "On Time, Every Time" is only part of its broader objective—which is to meet every customer's overall requirements, every time. Meeting this goal

ISP's new pharmaceutical applications laboratory in Wayne, New Jersey.

will require continued study, analysis and improvement of every work process so that the final product or service consistently exceeds customer expectations.

As ABOVE AND BEYOND'S approach to solving problems becomes pervasive throughout the Company, every work process will be carefully described, problems will be identified, and root causes determined. Then, new improved processes will be developed, monitored with statistical analysis, and refined prior to implementation.

ISP's commitment to go ABOVE AND BEYOND customer expectations is defined as delivering innovative technology, exceptional service, and performance enhancing products, on time, every time. All these actions together will add value to ISP's customers and strengthen the competitive position of the Company around the world. Ultimately, the efforts of each employee in this endeavor will advance the larger objective—satisfying the requirements, by exceeding the expectations, of all the Company's stakeholders: shareholders, customers, employees, suppliers, and the community.

Financial Review

Management's Discussion and Analysis of Financial Condition and Results of Operations

1996 COMPARED WITH 1995

International Specialty Products Inc. (the "Company") recorded net income in 1996 of $80.7 million (83 cents per share) compared with net income of $67.4 million (68 cents per share) in 1995. The 20% increase in net income was attributable to higher operating income (up $8.9 million), a $4.4 million reduction in interest expense, and a $6.4 million increase in other income.

Sales for 1996 were $716.5 million compared with $689 million for 1995. The sales growth was attributable to increased sales of specialty chemicals (up $25.2 million), primarily reflecting increased sales volumes ($31.3 million), partially offset by the unfavorable effect ($7.7 million) of the stronger U.S. dollar relative to other currencies in certain areas of the world, and also reflected higher filter products sales (up $2.4 million) due to increased unit sales. Sales for the mineral products business decreased by $.5 million due to lower sales volumes (down $2.6 million) resulting from a lost customer and adverse winter weather conditions in the first quarter of 1996. The sales growth in 1996 reflected higher sales in all geographic regions.

Operating income for 1996 increased by 7% to $136 million compared with $127.1 million for 1995, while the Company's operating margin improved from 18.4% to 19.0%. The increase in operating income was due to higher specialty chemicals operating income (up $11.6 million or 11%), partially offset by lower filter products results (down $3.3 million due to lower gross profit margins). The higher specialty chemicals operating income resulted primarily from the higher sales levels and improved gross margins (up 2.4 percentage points) due to improved pricing and continued benefits from the Company's reengineering program. The gross margin improvement was attributable to the Company's increased focus on manufacturing process improvements through increased production yields, improvements in first pass quality, and increased capacity resulting from shorter production cycle times and increased on-line time for equipment. In addition, raw materials costs were lower in 1996 than in 1995.

Selling, general and administrative expenses in 1996 increased by $14.3 million (11%) compared with 1995, and, as a percent of sales, increased from 19.5% to 20.7%. The most significant factors for the increase in such expenses were attributable to the Company's geographic expansion efforts ($3.0 million), increased research and development spending ($3.5 million) and normal salary increases ($3.0 million).

Of the $8.9 million increase in operating income in 1996, domestic operating income increased by $6.5 million, due primarily to increased sales volumes for specialty chemicals, as well as improved gross margins, while operating income for the European region increased by $6.6 million, also as a result of higher sales levels and improved gross margins for specialty chemicals. Operating income for the Asia-Pacific region decreased by $2.6 million as higher sales volumes were more than offset by increased expenses associated with the Company's geographic expansion program, and operating income from other foreign operations declined by $1.5 million.

Interest expense for 1996 was $28.7 million, a decrease of $4.4 million (13%) from $33.1 million in 1995. The decrease reflected lower average borrowings (average borrowings of $389.2 million in 1996 versus $442.3 million in 1995) and lower interest rates (average borrowing rate of 7.9% in 1996 versus 8.3% in 1995).

Other income (expense), net, comprises net investment income, foreign exchange gains/losses resulting from the revaluation of foreign currency-denominated accounts receivable and payable as a result of changes in exchange rates, and other nonoperating and nonrecurring items of income and expense. Other income, net was $13.1 million in 1996 compared with $6.7 million in 1995. The increase in 1996 was due principally to higher net investment income (up $3.6 million) and gains associated with the Company's program to hedge certain of its foreign currency exposures. See Note 1 to Consolidated Financial Statements.

1995 COMPARED WITH 1994

In 1995, the Company recorded net income of $67.4 million (68 cents per share) compared with net income of $44.5 million (45 cents per share) in 1994. Net income in 1994 included an extraordinary charge of $1.2 million (one cent per share) related to the refinancing of the Company's bank debt.

The results for 1995 reflected higher operating income (up $27.9 million), $3.4 million higher equity income from the GAF-Hüls Chemie GmbH joint venture ("GAF-Hüls"), and a $6.8 million increase in other income, partially offset by a $4.4 million increase in interest expense.

Sales for 1995 were $689 million compared with $600 million for 1994. The 15% sales growth was attributable to increased sales in all product lines, particularly specialty chemicals (up $74.8 million), and reflected double-digit sales increases in all regions of the world. The sales increase was primarily the result of increased sales volumes in all product lines (up $49.6 million) and higher selling prices and, to a lesser extent, the favorable effect ($14.3 million) of the weaker U.S. dollar relative to other currencies in certain areas of the world.

Operating income for 1995 increased by 28% to $127.1 million compared with $99.2 million for 1994. The increase was attributable to higher sales in all product lines and improved gross margins (up 1.1 percentage points) due primarily to higher selling prices, partially offset by higher manufacturing costs. The gross margin improvement was attributable to the Company's increased focus on manufacturing process improvements through increased production yields, improvements in first pass quality, and increased capacity resulting from shorter production cycle times and increased on-line time for equipment. In addition, raw materials costs increased in the latter half of 1994 and continued through the first half of 1995. Operating income for the specialty chemicals business increased by $25.7 million (32%), reflecting the above factors. Selling, general and administrative expenses for 1995 increased $14.4 million (12%) over 1994 due to operating expenses associated with higher sales levels; however, such expenses as a percent of sales decreased from 23% in 1993 to 19.9% and 19.5% in 1994 and 1995, respectively, primarily as a result of the Company's cost reduction and productivity programs announced in 1993. The Company's operating margin improved from 16.5% in 1994 to 18.4% in 1995.

Of the $27.9 million increase in operating income in 1995, domestic operating income increased by $16.6 million, due primarily to higher selling prices and increased sales volumes for specialty chemicals, as well as improved gross margins, while operating income for the European region increased by $9.4 million as a result of higher sales levels and improved gross margins. Operating income for the Asia-Pacific region increased by $3.6 million, with higher sales volumes partially offset by increased expenses associated with the Company's geographic expansion program, and operating income from other foreign operations declined by $1.7 million as higher sales were offset by additional expenses attributable to the geographic expansion program and a nonrecurring 1994 benefit resulting from the Brazilian government's economic program. To help offset the effects of inflation, this program allowed companies to add normal billing surcharges in 1994. The operating income benefit to the Company in 1994 of such surcharges was approximately $1.2 million. As inflation rates dropped, this program was discontinued in 1995. See Note 11 to Consolidated Financial Statements.

Interest expense for 1995 was $33.1 million, an increase of $4.4 million from $28.7 million in 1994. The increase was primarily the result of higher interest rates (average borrowing rate of 8.3% in 1995 versus 6.6% in 1994).

Other income (expense), net, comprises net investment income, foreign exchange gains/losses resulting from the revaluation of foreign currency-denominated accounts receivable and payable as a result of changes in exchange rates, and other nonoperating and nonrecurring items of income and expense. Other income, net was $6.7 million in 1995 compared with other expense, net of $.1 million in 1994. The increase in 1995 was due principally to higher net investment income (up $10.5 million). See Note 1 to Consolidated Financial Statements.

LIQUIDITY AND FINANCIAL CONDITION

During 1996, the Company generated cash from operations of $104.3 million, reinvested $54.6 million for capital programs and generated $5.4 million from net sales of available-for-sale and held-to-maturity securities and other short-term investments, for a net cash inflow of $55.1 million before financing activities. Cash from operations in 1996 included $5.7 million in dividends received from GAF-Hüls and $5.7 million in proceeds from net sales of trading securities. Cash invested in additional working capital totaled $7.7 million during 1996. This principally reflected an $8.9 million increase in receivables due to higher sales levels, partially offset by $2.9 million higher payables and accrued liabilities.

Net cash used in financing activities in 1996 totaled $51.4 million, primarily reflecting a $55.3 million reduction in borrowings from affiliates and a $14.3 million decrease in short-term borrowings, partially offset by a $30.2 million increase in long-term debt which principally reflected increased borrowings under the Company's bank revolving credit facility. Cash used in financing activities also reflected $15.1 million of expenditures in connection with the Company's common stock repurchase program. The Company's program, begun in 1994, involves open market repurchases from time to time of up to a total of 4,500,000 shares of its common stock. The repurchased shares are held for general corporate purposes, including issuance of shares under the Company's stock option plan. Through December 31, 1996, 3,594,900 shares of the Company's common stock had been repurchased pursuant to the program.

As a result of the foregoing factors, cash and cash equivalents increased by $3.7 million during 1996 to $17.8 million (excluding $123.7 million of trading, available-for-sale and held-to-maturity securities and other short-term investments).

The Company's investment strategy is to seek returns in excess of money market rates on its available cash while minimizing market risks. There can be no assurance that the Company will be successful in implementing such a strategy. The Company invests primarily in international and domestic arbitrage and securities of companies involved in acquisition or reorganization transactions, including at times, common stock short positions which are offsets against long positions in securities which are expected, under certain circumstances, to be exchanged or converted into the short positions. With respect to its equity positions, the Company is exposed to the risk of market loss. See Note 1 to Consolidated Financial Statements.

In July 1996, the Company entered into a new five-year revolving credit facility (the "Credit Agreement") with a group of banks, which provides for loans of up to $400 million and letters of credit of up to $75 million (see Note 6 to Consolidated Financial Statements). As of December 31, 1996, loans in the amount of $70.4 million and letters of credit in the amount of $8.0 million were outstanding under the Credit Agreement. The Credit Agreement permits the Company to make loans to affiliates and to make available letters of credit for the benefit of affiliates in an aggregate amount of up to $75 million, none of which had been utilized as of December 31, 1996.

Borrowings by the Company, including those under the Credit Agreement, are subject to the application of certain financial covenants contained in such agreement and the indentures relating to the 9% Senior Notes due 2003 and 9¾% Senior Notes due 2002, both issued by ISP Holdings Inc. ("ISP Holdings"), the Company's parent and owner of approximately 83.5% of the Company's common stock. As of December 31, 1996, the Company was in compliance with such covenants, and the application of such covenants would not have restricted the amount available for borrowing under the Credit Agreement. The Credit Agreement and the indenture relating to the Company's 9% Senior Notes due 1999 limit the amount of cash dividends, purchases of treasury stock, and other restricted payments (as defined) by the Company. See Note 6 to Consolidated Financial Statements.

As of December 31, 1996, the Company's scheduled repayments of long-term debt for the twelve months ending December 31, 1997 aggregated $.6 million.

Fluctuations in the value of foreign currencies may cause U.S. dollar translated amounts to change in comparison with previous periods and, accordingly, the Company cannot estimate in any meaningful way the possible effect of such fluctuations upon future income. The Company has a policy to manage these exposures to minimize the effects of fluctuations in foreign currencies, which includes entering into foreign exchange contracts in order to hedge its exposure. In respect of its foreign exchange contracts, the Company recognized pre-tax gains of $7.0 million during 1996 and losses of $7.4 and $6.6 million during 1995 and 1994, respectively. At December 31, 1996, the equivalent U.S. dollar fair value of outstanding forward foreign exchange contracts was $174.5 million, and the amount of deferred gains and losses on such instruments was immaterial. The equivalent U.S. dollar fair value of foreign exchange contracts outstanding as of December 31, 1996 as a hedge of non-local currency loans was $30.2 million, representing 100% of the Company's foreign currency exposure with respect to such loans. See Note 1 to Consolidated Financial Statements.

The objectives of the Company in utilizing interest rate swap agreements are to lower funding costs, diversify sources of funding and manage interest rate exposure. As of December 31, 1996, the total notional amount of interest rate swaps outstanding was $200 million and the amount of underlying debt relating to such swaps was $200 million. By utilizing interest rate swap agreements, the Company reduced its interest expense by $2.8, $1.8 and $5.3 million in 1996, 1995 and 1994, respectively. See Note 6 to Consolidated Financial Statements.

ISP Holdings was a wholly owned subsidiary of GAF Corporation ("GAF") until January 1, 1997, when its stock was distributed to the stockholders of GAF in a series of transactions involving GAF's subsidiaries. As a result, ISP Holdings and ISP are no longer direct or indirect subsidiaries of GAF or its subsidiary, G-I Holdings Inc.

ISP Holdings is a holding company without independent businesses or operations and, as such, is dependent upon the cash flows of the Company in order to satisfy its obligations. Such obligations include $325 million principal amount of ISP Holdings' 9% Senior Notes due 2003 and $199.9 million principal amount of ISP Holdings' 9 3/4% Senior Notes due 2002. ISP Holdings expects to satisfy such obligations from, among other things, refinancings of debt, dividends and loans from the Company, as to which there are restrictions under the Credit Agreement and the indenture relating to the Company's 9% Senior Notes (see Note 6 to Consolidated Financial Statements), and payments pursuant to the Tax Sharing Agreement between ISP Holdings and the Company (see Note 2 to Consolidated Financial Statements). The Company does not believe that the dependence of ISP Holdings on the cash flows of the Company should have a material adverse effect on the operations, liquidity or capital resources of the Company.

As the Company's stock price appreciates, ISP Holdings may at some future time consider selling shares of the Company's common stock, although it has no current intention to do so. If ISP Holdings were to own less than 80% of the outstanding common stock of the Company, payments pursuant to the Tax Sharing Agreement would not be available to it.

For information with respect to income taxes, see Note 2 to Consolidated Financial Statements.

The Company does not believe that inflation has had an effect on its results of operations during the past three years. However, there can be no assurance that the Company's business will not be affected by inflation in the future.

The Company intends to acquire or develop a European manufacturing facility to meet the needs of the Company's European business. While the originally anticipated commencement date of the European project has been deferred because the Company has been able to implement cost efficient capacity expansions at its existing manufacturing facilities, based upon its current analyses of additional opportunities for expansion of existing capacity, end-use demand, and other relevant factors, the Company intends to proceed with the project by the end of 1997. Costs capitalized to date related to this project are included in "Construction in progress". The Company anticipates utilizing internally generated funds, existing credit facilities and/or independent financing to fund the cost of the project.

The Company has received conditional site designation from the New Jersey Hazardous Waste Facilities Siting Commission for the construction of a hazardous waste treatment, storage and disposal facility at its Linden, New Jersey property, and has received approval from the New Jersey Turnpike Authority for a direct access ramp from the Turnpike to the site. Both the site designation and the access ramp approval have been appealed to the Courts by the City of Linden. The Company estimates that the cost of constructing the facility will be approximately $100 million and, if approved, the facility is anticipated to be in operation three years after commencement of construction. The Company anticipates utilizing internally generated cash and/or seeking project or other independent financing therefor. Accordingly, the Company would not expect such facility to impact materially its liquidity or capital resources.

The Company, together with other companies, is a party to a variety of administrative proceedings and lawsuits involving environmental matters. See Note 12 to Consolidated Financial Statements for further information.

FORWARD-LOOKING STATEMENTS

The discussions in this Annual Report contain both historical and forward-looking statements. Although the Company believes that any such forward-looking statements are based on reasonable assumptions, these statements involve uncertainties that affect, among other things, the Company's operations, markets, products, services and prices. These uncertainties include economic, competitive, governmental and technological factors.

Selected Financial Data

(Dollars in thousands, except per share amounts)					Year Ended December 31,
	1996	1995	1994	1993	1992
Operating data:					
Net sales	**$ 716,481**	$ 689,002	$ 600,047	$ 548,252	$ 570,757
Operating income	**136,024**	127,096	99,245	65,091	107,664
Interest expense	**28,729**	33,091	28,676	24,500	30,595
Income before income taxes	**125,967**	106,102	72,484	49,823	85,782
Income before extraordinary item and cumulative effect of accounting change	**80,663**	67,375	45,752	29,558	57,182
Net income	**80,663**	67,375	44,515	29,558	50,113
Earnings per common share:					
Income before extraordinary item and cumulative effect of accounting change	**$ .83**	$ .68	$ .46	$ .30	$ .57
Net income	**$ .83**	$ .68	$ .45	$ .30	$ .50
Dividends per common share	**$ —**	$ —	$ .05	$ .05	$ .05
Other data:					
Operating margin	**19.0%**	18.4%	16.5%	11.9%	18.9%
Depreciation	**$ 38,279**	$ 35,960	$ 32,753	$ 28,737	$ 25,610
Goodwill amortization	**13,200**	13,223	13,400	13,856	13,706
Capital expenditures and acquisitions	**54,587**	38,934	31,098	62,858	70,464

					December 31,
	1996	1995	1994	1993	1992
Balance Sheet data:					
Total working capital	**$ 219,702**	$ 142,550	$ 121,803	$ 78,263	$ 179,310
Total assets	**1,316,914**	1,312,938	1,251,304	1,243,315	1,270,418
Long-term debt	**372,870**	347,491	377,106	367,722	493,025
Stockholders' equity	**701,493**	643,244	582,368	534,012	516,999

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Consolidated Statements of Income

(Thousands, except per share amounts)	Year Ended December 31, 1996	1995	1994
Net sales	$ 716,481	$ 689,002	$ 600,047
Costs and expenses:			
Cost of products sold	418,921	414,672	367,746
Selling, general and administrative	148,336	134,011	119,656
Goodwill amortization	13,200	13,223	13,400
Total costs and expenses	580,457	561,906	500,802
Operating income	136,024	127,096	99,245
Interest expense	(28,729)	(33,091)	(28,676)
Equity in earnings of joint venture	5,604	5,413	2,034
Other income (expense), net	13,068	6,684	(119)
Income before income taxes and extraordinary item	125,967	106,102	72,484
Income taxes	(45,304)	(38,727)	(26,732)
Income before extraordinary item	80,663	67,375	45,752
Extraordinary item, net of $733 income tax benefit	—	—	(1,237)
Net income	$ 80,663	$ 67,375	$ 44,515
Earnings per common share:			
Income before extraordinary item	$ .83	$ .68	$ .46
Extraordinary item	—	—	(.01)
Net income	$ .83	$ .68	$ .45
Weighted average number of common shares outstanding	97,197	98,613	99,888

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Balance Sheets

(Thousands)	December 31, 1996	1995
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 17,753	$ 14,080
Investments in trading securities	1,273	17,183
Investments in available-for-sale securities	114,323	109,214
Investments in held-to-maturity securities	1,977	4,618
Other short-term investments	6,149	4,885
Accounts receivable, trade, less reserve of $2,840 and $2,879	66,875	60,327
Accounts receivable, other	12,835	12,356
Receivable from related parties, net	5,518	—
Inventories	108,586	107,969
Other current assets	13,239	12,920
Total Current Assets	348,528	343,552
Property, plant and equipment, net	489,474	475,550
Excess of cost over net assets of businesses acquired, net of accumulated amortization of $105,025 and $91,825	417,258	430,458
Other assets	61,654	63,378
Total Assets	$ 1,316,914	$ 1,312,938
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	$ 22,275	$ 36,199
Current maturities of long-term debt	610	398
Loan payable to related party	—	50,597
Accounts payable	42,939	41,727
Accrued liabilities	57,134	56,538
Payable to related parties, net	—	9,429
Income taxes	5,868	6,114
Total Current Liabilities	128,826	201,002
Long-term debt less current maturities	310,294	280,254
Long-term notes payable to related parties	62,576	67,237
Deferred income taxes	52,665	55,743
Other liabilities	61,060	65,458
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, $.01 par value per share; 20,000,000 shares authorized: 0 shares issued	—	—
Common stock, $.01 par value per share; 300,000,000 shares authorized: 99,888,646 shares issued	999	999
Additional paid-in capital	504,686	504,544
Treasury stock, at cost - 3,451,522 and 2,122,395 shares	(30,874)	(16,718)
Excess of purchase price over the adjusted historical cost of predecessor company shares owned by GAF's stockholders	(63,483)	(63,483)
Retained earnings	280,297	199,634
Cumulative translation adjustment and other	9,868	18,268
Total Stockholders' Equity	701,493	643,244
Total Liabilities and Stockholders' Equity	$ 1,316,914	$ 1,312,938

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Cash Flows

(Thousands)	Year Ended December 31, 1996	1995	1994
Cash and cash equivalents, beginning of year	$ 14,080	$ 20,127	$ 11,022
Cash provided by operating activities:			
Net income	80,663	67,375	44,515
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	38,279	35,960	32,753
Goodwill amortization	13,200	13,223	13,400
Deferred income taxes	(2,494)	(18,809)	(16,494)
(Increase) decrease in working capital items	(7,650)	(5,105)	(12,010)
Purchases of trading securities	(42,002)	(66,483)	(267,181)
Proceeds from sales of trading securities	47,677	104,058	284,520
(Increase) decrease in other assets	780	56	(2,311)
Decrease in other liabilities	(31)	(1,343)	(2,090)
Change in net receivable from/payable to related parties	(14,947)	6,093	(247)
Change in cumulative translation adjustment	(8,376)	6,918	8,306
Other, net	(813)	1,868	(4,555)
Net cash provided by operating activities	104,286	143,811	78,606
Cash used in investing activities:			
Capital expenditures and acquisitions	(54,587)	(38,934)	(31,098)
Purchases of available-for-sale securities	(287,361)	(364,012)	(953)
Purchases of held-to-maturity securities	(14,331)	(5,592)	—
Purchases of other short-term investments	(1,264)	(2,188)	(2,697)
Proceeds from sales of available-for-sale securities	291,408	257,197	742
Proceeds from held-to-maturity securities	16,972	974	—
Net cash used in investing activities	(49,163)	(152,555)	(34,006)
Cash provided by (used in) financing activities:			
Proceeds (repayments) from sale of accounts receivable	2,000	3,768	(1,052)
Increase (decrease) in short-term debt	(14,256)	36,199	(12,848)
Increase (decrease) in borrowings under revolving credit facility	29,625	(4,200)	(82,250)
Other increase (decrease) in long-term debt	543	(1,435)	(798)
Increase (decrease) in loans from related parties	(55,258)	(15,216)	66,263
Dividends	—	—	(4,994)
Repurchases of common stock	(15,134)	(16,614)	(327)
Other, net	1,030	195	511
Net cash provided by (used in) financing activities	(51,450)	2,697	(35,495)
Net change in cash and cash equivalents	3,673	(6,047)	9,105
Cash and cash equivalents, end of year	$ 17,753	$ 14,080	$ 20,127

Consolidated Statements of Cash Flows continued

(Thousands)	Year Ended December 31, 1996	1995	1994
Supplemental Cash Flow Information:			
Effect on cash from (increase) decrease in working capital items*:			
Accounts receivable	$ (8,884)	$ (10,892)	$ (14,161)
Inventories	(575)	1,029	(5,087)
Other current assets	(967)	2,105	1,688
Accounts payable	1,186	(5,895)	8,187
Accrued liabilities	1,738	8,389	(4,162)
Income taxes	(148)	159	1,525
Net effect on cash from (increase) decrease in working capital items	$ (7,650)	$ (5,105)	$ (12,010)

* *Working capital items exclude cash and cash equivalents, short-term investments, short-term debt and payables to and receivables from related parties. Working capital acquired in connection with acquisitions is reflected within "Capital expenditures and acquisitions". The effects of reclassifications between noncurrent and current assets and liabilities are excluded from the amounts shown above. In addition, the increase in accounts receivable shown above does not reflect the cash proceeds from the sale of the Company's domestic trade accounts receivable (see Note 3); such proceeds are reflected in cash from financing activities.*

	1996	1995	1994
Cash paid during the year for:			
Interest (net of amount capitalized)	$ 33,015	$ 36,776	$ 31,140
Income taxes (including taxes paid pursuant to the Tax Sharing Agreement)	61,701	44,489	44,499

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements Of Stockholders' Equity

(Thousands)	Capital Stock and Additional Paid-in Capital	Treasury Stock at Cost	Cumulative Translation Adjustment and Other	Retained Earnings
December 31, 1993	$ 505,571	$ —	$ (814)	$ 92,738
Net income	—	—	—	44,515
Translation adjustment	—	—	8,306	—
Dividends declared ($.05 per common share)	—	—	—	(4,994)
Repurchases of common stock — 49,000 shares	—	(327)	—	—
Unrealized loss on available-for-sale securities, net of $621 income tax benefit	—	—	(1,063)	—
Adjustment of unfunded pension liability	—	—	1,919	—
December 31, 1994	$ 505,571	$ (327)	$ 8,348	$ 132,259
Net income	—	—	—	67,375
Translation adjustment	—	—	6,918	—
Repurchases of common stock— 2,102,200 shares	—	(16,614)	—	—
Change in unrealized gain on available-for-sale securities, net of $1,198 income tax effect	—	—	2,618	—
Issuances under stock option plan— 28,805 shares	—	223	—	—
Excess of cost of treasury stock issued over proceeds	(28)	—	—	—
Adjustment of unfunded pension liability	—	—	384	—
December 31, 1995	$ 505,543	$ (16,718)	$ 18,268	$ 199,634
Net income	—	—	—	80,663
Translation adjustment	—	—	(8,376)	—
Repurchases of common stock — 1,443,700 shares	—	(15,134)	—	—
Change in unrealized gain on available-for-sale securities, net of $48 income tax effect	—	—	(820)	—
Issuances under stock option plan — 112,823 shares	—	957	—	—
Issuance of stock (1,750 shares) and options as incentives	323	21	—	—
Excess of cost of treasury stock issued over proceeds	(181)	—	—	—
Adjustment of unfunded pension liability	—	—	796	—
December 31, 1996	$ 505,685	$ (30,874)	$ 9,868	$ 280,297

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

International Specialty Products Inc. (the "Company") is a multinational manufacturer of a wide range of specialty chemicals, mineral products, filter products and advanced materials. See Notes 10 and 11 for financial information concerning the Company's industry segments and foreign and domestic operations. Approximately 83.5% of the Company's common stock is owned by ISP Holdings Inc. ("ISP Holdings").

ISP Holdings was a wholly owned subsidiary of GAF Corporation ("GAF") until January 1, 1997, when its stock was distributed to the stockholders of GAF in a series of transactions involving GAF's subsidiaries (the "Separation Transactions"). As a result, ISP Holdings and the Company are no longer direct or indirect subsidiaries of GAF or its subsidiary, G-I Holdings Inc. ("G-I Holdings").

Note 1
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

All subsidiaries are consolidated and intercompany transactions have been eliminated.

Financial Statement Estimates

The preparation of financial statements requires management to make certain estimates. Actual results could differ from those estimates. In the opinion of management, the financial statements herein contain all adjustments necessary to present fairly the financial position and the results of operations and cash flows of the Company for the periods presented. The Company has a policy to review the recoverability of long-lived assets and identify and measure any potential impairments. The Company does not anticipate any changes in management estimates that would have a material impact on operations, liquidity or capital resources.

Investment in Joint Venture

The Company's 50% ownership of GAF-Hüls Chemie GmbH ("GAF-Hüls"), a joint venture which operates a chemical manufacturing plant in Germany, is accounted for by the equity method. The Company's equity in the net assets of GAF-Hüls was $38.2 and $41.2 million as of December 31, 1996 and 1995, respectively, and is included in "Other assets". Dividends received by the Company from GAF-Hüls totaled $5.7, $.3 and $4.4 million for 1996, 1995 and 1994, respectively.

Short-term Investments

For securities classified as "trading" (including short positions), unrealized gains and losses are reflected in income. For securities classified as "available-for-sale", unrealized gains (losses), net of income tax effect, are included in a separate component of stockholders' equity, "Cumulative translation adjustment and other", and amounted to $.7 and $1.6 million as of December 31, 1996 and 1995, respectively. Investments classified as "held-to-maturity" securities are carried at amortized cost in the Consolidated Balance Sheets.

"Other income (expense), net", includes $20.5, $16.5 and $6.2 million of net realized and unrealized gains on securities in 1996, 1995 and 1994, respectively. The determination of cost in computing realized gains and losses is based on the specific identification method.

During the fourth quarter of 1995, the Company redesignated certain equity securities held long (which are offsets against short positions in certain other securities), with a fair market value of $18.1 million, as "trading" and recorded unrealized gains on such securities, through the date of redesignation, in the amount of $2.1 million as "Other income".

As of December 31, 1996 and 1995, the market value of the Company's equity securities held long was $115.1 and $127.3 million, respectively, and the Company had $7.9 and $22 million, respectively, of short positions in common stocks. As of December 31, 1996 and 1995, the market value of the Company's held-to-maturity securities was $2.0 and $4.6 million, respectively. The market values referred to above are based on quotations as reported by various stock exchanges and major broker dealers. With respect to its investments in securities, the Company is exposed to the risk of market loss.

"Other short-term investments" are investments in limited partnerships which are accounted for by the equity method. Gains and losses are reflected in "Other income (expense), net". Liquidation of partnership interests generally require a 30 to 45 day notice period.

Cash and cash equivalents include cash on deposit and debt securities purchased with original maturities of three months or less.

Inventories

Inventories are stated at the lower of cost or market. The LIFO (last-in, first-out) method is utilized to determine cost for a substantial portion of the Company's domestic inventories. All other inventories are determined principally based on the FIFO (first-in, first-out) method.

Property, Plant and Equipment

Depreciation is computed principally on the straight-line method based on the estimated economic lives of the assets. The Company uses an economic life of 10-20 years for land improvements, 40 years for buildings, and 3-20 years for machinery and equipment, which includes furniture and fixtures. Certain interest charges are capitalized during the period of construction as part of the cost of property, plant and equipment.

Foreign Exchange Contracts

The Company enters into forward foreign exchange instruments with off-balance-sheet risk in order to hedge a portion of both its borrowings denominated in foreign currency and its firm or anticipated purchase commitments related to the operations of foreign affiliates. Gains and losses on instruments used to hedge firm purchase commitments are deferred, and amortization is included in the measurement of the foreign currency transactions hedged. Gains and losses on instruments used to hedge anticipated purchases are recognized within "Other income (expense), net".

Forward contract agreements require the Company and the counterparty to exchange fixed amounts of U.S. dollars for fixed amounts of foreign currency on specified dates. The market value of such contracts varies with changes in the market exchange rates. The Company is exposed to credit loss in the event of nonperformance by the counterparties to the forward contract agreements. However, the Company does not anticipate nonperformance by the counterparties. The Company does not generally require collateral or other security to support these financial instruments.

As of December 31, 1996 and 1995, the equivalent dollar fair value of outstanding forward foreign exchange contracts was $174.5 and $183.1 million, respectively, and the amount of deferred gains and losses on such instruments was immaterial at each of such dates. All forward contracts are in major currencies with highly liquid markets and mature within one year. The Company uses quoted market prices obtained from major financial institutions to determine the market value of its outstanding forward exchange contracts. The U.S. dollar equivalent fair value of foreign exchange contracts outstanding as of December 31, 1996 as a hedge of non-local currency loans was $30.2 million, representing 100% of the Company's foreign currency exposure with respect to such loans.

The Company continually monitors its risk from the effect of foreign currency fluctuations on its operations and on the derivative products used to hedge its risk. The Company utilizes real-time, on-line foreign exchange data and news as well as evaluation of economic information provided by financial institutions. Mark-to-market valuations are made on a regular basis. Hedging strategies are approved by senior management before being implemented.

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries, other than those located in highly inflationary countries, are translated at year-end exchange rates. The effects of these translation adjustments are reported in a separate component of stockholders' equity, "Cumulative translation adjustment and other", and amounted to $9.1 and $17.5 million as of December 31, 1996 and 1995, respectively. Income and expenses are translated at average exchange rates prevailing during the year. Exchange gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved, and translation adjustments of subsidiaries in countries with highly inflationary economies, are included in "Other income (expense), net".

Excess of Purchase Price Over the Adjusted Historical Cost of Predecessor Company Shares

Stockholders' equity reflects a reduction of $63.5 million which arose from a management-led buyout in March 1989 of the predecessor company to the Company's former parent company, GAF (the "Acquisition"), because certain members of the management group owned shares of the predecessor company's common stock before the Acquisition and own shares of GAF after the Acquisition. Accordingly, a step-up in asset values to fair value as required by the purchase method of accounting (which was applied to the Acquisition) does not apply to their shares.

Excess of Cost Over Net Assets of Businesses Acquired ("Goodwill")

Goodwill, which arose principally from the Acquisition, is amortized on the straight-line method over a period of approximately 40 years. The Company believes that the goodwill is recoverable. The primary financial indicator to assess recoverability of goodwill is operating income before amortization of goodwill. The assessment is based on an undiscounted analysis.

Debt Issuance Costs

Debt issuance costs are amortized to expense over the life of the related debt.

Interest Rate Swaps

Gains (losses) on interest rate swap agreements ("swaps") are deferred and amortized as a reduction (increase) of interest expense over the remaining life of the debt issue with respect to which the swaps were entered.

Research and Development

Research and development costs are charged to operations as incurred and amounted to $25.4, $21.9 and $20.3 million for 1996, 1995 and 1994, respectively.

Environmental Liability

The Company, together with other companies, is a party to a variety of proceedings and lawsuits involving environmental matters. The Company estimates that its liability in respect of such environmental matters, and certain other environmental compliance expenses, as of December 31, 1996, will be $18.5 million, before reduction for insurance recoveries reflected on its balance sheet of $6.9 million. The Company's liability is reflected on an undiscounted basis. See Note 12 for further discussion with respect to environmental liabilities and estimated insurance recoveries.

Reclassifications

Certain amounts in the 1995 and 1994 Consolidated Financial Statements and Notes to Consolidated Financial Statements have been reclassified to conform to the 1996 presentation.

Note
2

INCOME TAXES

Income tax (provision) benefit consists of the following:

	Year Ended December 31,		
(Thousands)	**1996**	1995	1994
Federal:			
Current	**$ (38,968)**	$ (48,955)	$ (36,055)
Deferred	**2,071**	17,794	16,051
Total Federal	**(36,897)**	(31,161)	(20,004)
Foreign - current	**(6,648)**	(6,432)	(6,019)
State and local:			
Current	**(2,182)**	(2,149)	(1,152)
Deferred	**423**	1,015	443
Total state and local	**(1,759)**	(1,134)	(709)
Income tax provision	**$ (45,304)**	$ (38,727)	$ (26,732)

The differences between the income tax provision computed by applying the statutory Federal income tax rate to pre-tax income, and the income tax provision reflected in the Consolidated Statements of Income are as follows:

	Year Ended December 31,		
(Thousands)	**1996**	1995	1994
Statutory tax provision	**$ (44,045)**	$ (37,136)	$ (25,369)
Impact of:			
Foreign operations	**1,848**	3,633	1,657
Nondeductible goodwill amortization	**(4,620)**	(4,628)	(4,690)
Percentage depletion	**1,668**	1,824	1,684
Other, net	**(155)**	(2,420)	(14)
Income tax provision	**$ (45,304)**	$ (38,727)	$ (26,732)

The components of the net deferred tax liability are as follows:

(Thousands)	December 31, 1996	1995
Deferred tax liabilities related to:		
Property, plant and equipment	$ 90,103	$ 90,854
Other	1,948	6,019
Total deferred tax liabilities	92,051	96,873
Deferred tax assets related to:		
Expenses not yet deducted for tax purposes	(16,798)	(14,099)
Deferred income	(22,921)	(19,912)
Foreign tax credits not yet utilized under the Tax Sharing Agreement	—	(3,326)
Other	(5,534)	(10,389)
Total deferred tax assets	(45,253)	(47,726)
Net deferred tax liability	46,798	49,147
Deferred tax assets reclassified to other current assets	5,867	6,596
Noncurrent deferred tax liability	$ 52,665	$ 55,743

Effective January 1, 1997, the Company and its domestic subsidiaries entered into a Tax Sharing Agreement with ISP Holdings with respect to the payment of Federal income taxes and certain related matters (the "Tax Sharing Agreement"). During the term of the Tax Sharing Agreement, which extends as long as the Company or any of its domestic subsidiaries, as the case may be, are included in a consolidated Federal income tax return filed by ISP Holdings, or a successor entity, the Company is obligated to pay to ISP Holdings an amount equal to those Federal income taxes the Company would have incurred if, subject to certain exceptions, the Company (on behalf of itself and its domestic subsidiaries) filed its own consolidated Federal income tax return. These exceptions include, among others, that the Company may utilize certain favorable tax attributes *i.e.*, losses, deductions and credits (except for a certain amount of foreign tax credits and, in general, net operating losses) only at the time such attributes reduce the Federal income tax liability of ISP Holdings and its consolidated subsidiaries (the "ISP Holdings Group"); and that the Company may carry back or carry forward its favorable tax attributes only after taking into account current tax attributes of the ISP Holdings Group. In general, subject to the foregoing limitations, unused tax attributes carry forward for use in reducing amounts payable by the Company to ISP Holdings in future years. Subject to certain exceptions, actual payment for such attributes will be made by ISP Holdings to the Company only when ISP Holdings receives an actual refund of taxes from the IRS or, under certain circumstances, the earlier of (i) the dates of the filing of Federal income tax returns of the Company for taxable years of the Company following the last taxable year in which it was a member of the ISP Holdings Group, or (ii) when ISP Holdings no longer owns more than 50% of the Company. Foreign tax credits not utilized by the Company in computing its tax sharing payments will be refunded by ISP Holdings to the Company, if such credits expire unutilized, upon the termination of the statute of limitations for the year of expiration.

The Tax Sharing Agreement provides for analogous principles to be applied to any consolidated, combined or unitary state or local income taxes. Under the Tax Sharing Agreement, ISP Holdings makes all decisions with respect to all matters relating to taxes of the ISP Holdings Group. The provisions of the Tax Sharing Agreement take into account both the Federal income taxes the Company would have incurred if it filed its own separate Federal income tax return and the fact that the Company is a member of the ISP Holdings Group for Federal income tax purposes.

The Company was a party to tax sharing agreements with members of the GAF consolidated group (the "GAF Group"). As a result of the Separation Transactions, the Company is no longer included in the consolidated Federal income tax returns of GAF, and therefore, such tax sharing agreements are no longer applicable with respect to the future tax liabilities of the Company. The Company remains obligated, however, with respect to tax liabilities imposed or that may be imposed for periods prior to the Separation Transactions. Among other things, those tax sharing agreements provide for the sharing of the GAF Group's consolidated tax liability based on each member's share of the tax as if such member filed on a separate basis. Accordingly, a payment of tax would be made to GAF equal to the Company's allocable share of the GAF Group's consolidated tax liability. Alternatively, the Company would be entitled to refunds if losses or other attributes reduce the GAF Group's consolidated tax liability. Moreover, foreign tax credits generated by the Company not utilized by GAF will be refunded by GAF or its subsidiary to the Company, if such credits expire unutilized upon termination of the statute of limitations for the year of expiration. Furthermore, those tax sharing agreements provide for an indemnification to the Company for any tax liability attributable to another member of the GAF Group.

In connection with Rhône-Poulenc Surfactants and Specialties, L.P. (the "Surfactants Partnership"), GAF Fiberglass Corporation ("GFC") (formerly known as GAF Chemicals Corporation, and an indirect subsidiary of GAF), has recorded a deferred tax liability in the amount of $131.4 million, which is reflected as a liability on the consolidated balance sheet of G-I Holdings. Payment of this liability (subject to reduction to reflect utilization of the tax attributes of GAF and its subsidiaries) is not expected earlier than 1999 under present circumstances. In certain circumstances, GFC could be required to satisfy this liability earlier than 1999. GAF, G-I Holdings and certain subsidiaries of GAF have agreed to jointly and severally indemnify the Company against such tax liability. Prior to the Separation Transactions, the Company was a member of the same consolidated Federal income tax group as GFC. Subject to such indemnification, the Company would be severally liable for any tax liability imposed in connection with the Surfactants Partnership should GAF, G-I Holdings and such subsidiaries be unable to satisfy such liability. GAF has advised the Company that, in the event the tax liability becomes payable, GAF believes that it will have access to sufficient funds to satisfy this liability if so required.

Note 3
SALE OF ACCOUNTS RECEIVABLE

In June 1993, the Company sold its domestic trade accounts receivable, without recourse, for a maximum of $25 million in cash to be made available to the Company based on eligible domestic receivables outstanding from time to time. As of November 6, 1996, the agreement under which the Company sells its domestic trade accounts receivable was extended for one year on substantially the same terms and conditions, and the maximum purchase amount was increased to $29 million. The excess of accounts receivable sold over the net proceeds received is included in "Accounts receivable, other". The effective cost to the Company varies with LIBOR or commercial paper rates and is included in "Other income (expense), net".

In 1996, the Financial Accounting Standards Board issued SFAS No. 125, relating to accounting for transfers and servicing of financial assets and extinguishments of liabilities, which will be adopted in 1997. The Company does not anticipate that the implementation of SFAS No. 125 will have a material effect on the Company's results of operations or financial position.

Note 4
INVENTORIES

At December 31, 1996 and 1995, $49.2 and $56.2 million, respectively, of domestic inventories were valued using the LIFO method. Inventories comprise the following:

	December 31,	
(Thousands)	1996	1995
Finished goods	$ 68,436	$ 71,431
Work in process	24,261	20,540
Raw materials and supplies	17,814	18,634
Total	110,511	110,605
Less LIFO reserve	(1,925)	(2,636)
Inventories	$108,586	$107,969

Note 5
PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprises the following:

	December 31,	
(Thousands)	1996	1995
Land and land improvements	$ 71,653	$ 69,504
Buildings and building equipment	85,693	80,880
Machinery and equipment	475,917	438,579
Construction in progress	45,341	46,547
Total	678,604	635,510
Less accumulated depreciation	(189,130)	(159,960)
Property, plant and equipment, net	$ 489,474	$ 475,550

See Note 12 for information regarding capital leases.

Note
6
LONG-TERM DEBT

Long-term debt comprises the following:

(Thousands)	December 31, 1996	1995
9% Senior Notes due 1999	$200,000	$ 200,000
Borrowings under revolving credit facility	70,425	40,800
Obligation on mortgaged property due 1999	38,125	38,125
Obligations under capital leases (Note 12)	2,068	1,727
Other	286	—
Total long-term debt	310,904	280,652
Less current maturities	(610)	(398)
Long-term debt less current maturities	$310,294	$ 280,254

In connection with the issuance of the 9% Senior Notes due 1999 (the "9% Notes"), the Company entered into interest rate swap agreements ("swaps") with banks in an aggregate notional principal amount of $200 million. In 1993, the Company terminated the swaps, resulting in gains of $25.1 million, and entered into new swaps. The gains were deferred and are being amortized as a reduction of interest expense over the remaining life of the 9% Notes. As a result of the new swaps, the effective interest cost to the Company of the 9% Notes varies at a fixed spread over LIBOR. Based on the fair value of the swaps at December 31, 1996 and 1995, the Company would have incurred losses of $4.8 and $2.8 million, respectively, representing the estimated amount that would be payable by the Company if the swaps were terminated at such dates.

The Company may be considered to be at risk, to the extent of the costs of replacing such swaps at current market rates, in the event of nonperformance by counterparties. However, since the counterparties are major financial institutions, the credit ratings of which are continually monitored by the Company, the risk of such nonperformance is considered by the Company to be remote.

In connection with the refinancing of the Company's bank facility in October 1994, the Company recorded an extraordinary charge of $1.2 million (after an income tax benefit of $.7 million), representing the write-off of deferred financing fees related to the previous bank credit agreement. In July 1996, the Company refinanced this credit facility with a $400 million five-year revolving credit facility (the "Credit Agreement"). Borrowings under the Credit Agreement bear interest at a floating rate (6.67% on December 31, 1996) based on the banks' base rate, federal funds rate, Eurodollar rate or a competitive bid rate (which may be based on LIBOR or money market rates), at the option of the Company.

As of December 31, 1996, letters of credit in the amount of $8.0 million were outstanding under the Credit Agreement. The Credit Agreement permits the Company to make loans to affiliates, and to make available letters of credit for the benefit of affiliates, in an aggregate amount of up to $75 million, none of which had been utilized as of December 31, 1996.

The Company has a $38.1 million mortgage obligation, due 1999, on its headquarters property. Interest on the mortgage is at a floating rate based on LIBOR.

Borrowings by the Company, including those under the Credit Agreement, are subject to the application of certain financial covenants contained in such agreement and in the indentures relating to ISP Holdings' 9% Senior Notes due 2003 and 9 ¾% Senior Notes due 2002. As of December 31, 1996, the Company was in compliance with such covenants, and the application of such covenants would not have restricted the amount available for borrowing under the Credit Agreement. The Credit Agreement and the indenture relating to the 9% Notes also limit the amount of cash dividends, purchases of treasury stock, and other restricted payments (as defined) by the Company. As of December 31, 1996, under the most restrictive of such limitations, the Company could have paid dividends in the aggregate amount of $80.2 million.

The Credit Agreement and the indenture relating to the 9% Notes contain additional affirmative and negative covenants, including restrictions on liens, investments, transactions with affiliates, sale-leaseback transactions, and restrictions on mergers and transfers of all or substantially all of the assets of the Company or its subsidiaries. The Credit Agreement also provides for a default if there is a change in control (as defined) of the Company.

Neither the Credit Agreement nor the 9% Notes are secured by any assets of the Company or its subsidiaries. The indenture governing the 9% Notes provides, subject to certain exceptions, that if the Company issues any debt secured by a lien on the

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stock of certain of its subsidiaries or upon any principal property, then such notes must be equally and ratably secured.

The Company believes that the fair value of its non-public variable rate indebtedness approximates the book value of such indebtedness because the interest rates on such indebtedness are at floating short-term rates. The Credit Agreement also provides for adjustments to the interest rate if there is a change in the credit rating of the Company. With respect to the Company's publicly traded debt securities, the Company has obtained estimates of fair values from an independent source believed to be reliable. The estimated fair value of the 9% Notes as of December 31, 1996 and 1995 was $207.8 and $214.6 million, respectively.

The aggregate maturities of long-term debt as of December 31, 1996 for the next five years are as follows:

(Thousands)	
1997	$ 610
1998	628
1999	238,503
2000	350
2001	83,277

In the above table, 1999 maturities include the $200 million of 9% Notes and the $38.1 million mortgage obligation. Maturities in 2001 include the $70.4 million of borrowings outstanding under the Credit Agreement as of December 31, 1996, based on the expiration of the Credit Agreement in July 2001, and $12.6 million of borrowings from ISP Holdings pursuant to a note agreement maturing in July 2001 (see Note 9).

At December 31, 1996, the Company's foreign subsidiaries had total available short-term lines of credit aggregating $38.5 million, of which $16.2 million were unused, and the Company also had a domestic bank line of credit of $10 million, none of which was utilized. The weighted average interest rate on the Company's short-term borrowings as of December 31, 1996 and 1995 was 4.6% and 5.8%, respectively.

Note 7

BENEFIT PLANS

Eligible, full-time employees of the Company are covered by various benefit plans, as described below.

Defined Contribution Plan

The Company provides a defined contribution plan for eligible employees. The Company contributes up to 7% of participants' compensation (of which up to 4% of participants' compensation, at the participants' option, is contributed in the form of the Company's common stock at a $.50 per share discount from the market price on the date of contribution), and also contributes fixed amounts, ranging from $50 to $750 per year depending on age, to the accounts of participants who are not covered by a Company-provided postretirement medical benefit plan. The aggregate contributions by the Company were $6.4, $6.3 and $6.1 million for 1996, 1995 and 1994, respectively.

Defined Benefit Plans

The Company provides a noncontributory defined benefit retirement plan for certain hourly employees (the "Hourly Retirement Plan"). Benefits under this plan are based on stated amounts for each year of service. The Company's funding policy is consistent with the minimum funding requirements of ERISA.

The Company's net periodic pension cost for the Hourly Retirement Plan included the following components:

	Year Ended December 31,		
(Thousands)	1996	1995	1994
Service cost	$ 315	$ 287	$ 363
Interest cost	1,439	1,349	1,253
Actual income on plan assets	(1,733)	(976)	(924)
Net deferral and amortization of unrecognized prior service cost and actuarial losses	174	275	343
Net periodic pension cost	$ 195	$ 935	$ 1,035

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The following table sets forth the funded status of the Hourly Retirement Plan:

(Thousands)	December 31, 1996	1995
Accumulated benefit obligation:		
Vested	$ 16,914	$ 16,919
Nonvested	3,117	2,273
Total accumulated benefit obligation	$ 20,031	$ 19,192
Projected benefit obligation	$ 20,031	$ 19,192
Fair value of plan assets, primarily listed stocks and U.S. Government securities	(19,076)	(15,314)
Projected benefit obligation in excess of plan assets	955	3,878
Unrecognized prior service cost	(1,202)	(1,956)
Unrecognized net loss	—	(796)
Unfunded (prepaid) accrued pension cost	$ (247)	$ 1,126

At December 31, 1996, the difference between the "Projected benefit obligation in excess of plan assets" and the "Unfunded (prepaid) accrued pension cost", in the amount of $1,202,000, has been recorded by the Company as an intangible asset. The foregoing amount will be amortized to expense over a period of approximately 15 years, as the Company continues to fund the benefits under the Hourly Retirement Plan.

In determining the projected benefit obligation, the weighted average assumed discount rate was 7.75% and 7.5% for 1996 and 1995, respectively. The expected long-term rate of return on assets, used in determining net periodic pension cost, was 11% for 1996 and 9% for 1995.

The Company also provides a nonqualified defined benefit retirement plan for certain key employees. Expense accrued for this plan was $.6, $1.4 and $1.2 million for 1996, 1995 and 1994, respectively.

Postretirement Medical and Life Insurance

The Company generally does not provide postretirement medical and life insurance benefits, although it subsidizes such benefits for certain employees and certain retirees. Such subsidies were reduced or ended as of January 1, 1997.

The following table shows the components of the accrued postretirement health care cost obligation as of December 31, 1996 and 1995:

(Thousands)	December 31, 1996	1995
Accumulated postretirement benefit obligation:		
Retirees, dependents and beneficiaries eligible for benefits	$ 8,141	$ 9,053
Active employees fully eligible for benefits	1,941	2,042
Active employees not fully eligible for benefits	123	121
Total accumulated postretirement benefit obligation	10,205	11,216
Fair value of plan assets	—	—
Unrecognized prior service cost and unrecognized net gains (losses)	573	(241)
Accrued postretirement benefit obligation	$ 10,778	$ 10,975

The net periodic postretirement benefit cost included the following components:

(Thousands)	Year Ended December 31, 1996	1995	1994
Service cost	$ 4	$ 3	$ 39
Interest cost	805	884	845
Amortization of unrecognized prior service cost	(39)	(145)	(25)
Net periodic postretirement benefit cost	$ 770	$ 742	$ 859

For purposes of calculating the accumulated postretirement benefit obligation, the following assumptions were made. Retirees as of December 31, 1996 who were formerly salaried employees (with certain exceptions) were assumed to receive a Company subsidy of $700 to $1,000 per year. For retirees over age 65, this subsidy may be replaced by participation in a managed care program. With respect to retirees who were formerly hourly employees, most such retirees are subject to a $5,000 per person lifetime maximum benefit. Subject to such lifetime maximum, a 13% and 7% annual rate of increase in the Company's per capita cost of providing postretirement medical benefits was assumed for 1997 for such retirees under and over age 65, respectively. To the extent that the lifetime maximum benefits have not been reached, the foregoing rates were assumed to decrease gradually to 7% and 6%, respectively, by the year 2003 and remain at that level thereafter. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.75% and 7.5% for 1996 and 1995, respectively.

The health care cost trend rate assumption has an effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1996 by $877,000 and the aggregate of the service and interest cost components of the net periodic postretirement benefit cost for the year 1996 by $118,000.

Note 8
STOCK OPTION PLAN

The 1991 Incentive Plan for Key Employees and Directors, as amended ("the Plan"), authorizes the grant of options to purchase a maximum of 5,000,000 shares of the Company's common stock. In December 1996, the Company's Board of Directors approved an amendment to the Plan, subject to stockholder approval, increasing the number of shares as to which options may be granted under the Plan to 7,000,000. In December 1995, the Company's Board of Directors approved an amendment to the Plan, which was approved by the Company's stockholders in 1996, to permit the Compensation Committee of the Board of Directors (the "Committee") to determine the exercise price and vesting schedule of options granted under the Plan. In December 1995 and December 1996, the Company granted options to certain employees to purchase 215,500 and 338,645 shares, respectively, of the Company's common stock at exercise prices ranging from $.625 to $5.625 below the fair market value of such shares on the date of grant. The difference between the exercise price and the fair market value of such shares on the date of grant is recognized as compensation expense over the vesting periods of $2^1/_2$ to 3 years. Compensation expense was $.3 million and $0 in 1996 and 1995, respectively, for such options. All other employee options granted under the Plan have a term of nine years, have an exercise price equal to the fair market value of such shares on the date of grant and become exercisable at a rate determined by the Committee at the time of grant. Special vesting rules apply to options granted to non-employee directors.

The Company has elected the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", and applies APB Opinion No. 25 and related interpretations in accounting for the Plan. If the Company had elected to recognize compensation cost based on the fair value of awards at grant dates, the Company's pro forma net income for the years 1996 and 1995 would have been $80.0 and $67.2 million, respectively, and pro forma earnings per share would have been $.82 and $.68, respectively. The SFAS No. 123 method of accounting has not been applied to options granted prior to January 1, 1995, and the resulting pro forma compensation expense may not be indicative of pro forma expense in future years.

The fair value of the Company's stock options used to compute pro forma net income and earnings per share is the estimated present value at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: risk-free interest rate of 6%; expected life of 6 years; expected volatility of 27%; and dividend yield of 0%.

The following is a summary of transactions pertaining to the Plan:

	Year Ended December 31, 1996		Year Ended December 31, 1995	
	Shares (000's)	Weighted Average Exercise Price	Shares (000's)	Weighted Average Exercise Price
Outstanding, January 1	3,277	$ 7.86	2,200	$ 7.72
Granted	2,110	11.31	1,355	8.05
Exercised	(115)	6.90	(29)	6.76
Forfeited	(258)	8.17	(249)	7.79
Outstanding, December 31	5,014	$ 9.32	3,277	$ 7.86
Options exercisable, December 31	1,140	$ 8.45	708	$ 8.65

Based on calculations using the Black-Scholes option-pricing model, the weighted-average fair value of options granted in 1996 for which the exercise price equaled the fair market value of such shares on the date of grant was $3.50 per share, and such weighted average fair value of options granted in 1996 for which the exercise price was less than the fair market value of such shares on the date of grant was $5.99 per share.

The following is a summary of the status of stock options outstanding and exercisable under the Plan as of December 31, 1996:

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices	Shares (000's)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Shares (000's)	Weighted Average Exercise Price
$ 5.00 - $ 7.50	1,945	$ 6.71	5.99 years	654	$ 6.76
$ 7.51 - $11.25	1,023	9.15	7.75 years	186	8.71
$11.26 - $14.00	2,046	11.88	8.17 years	300	11.96
Total	5,014	$ 9.32	7.24 years	1,140	$ 8.45

Note 9

RELATED PARTY TRANSACTIONS

Building Materials Corporation of America ("BMCA"), an indirect wholly owned subsidiary of GAF and an affiliate of the Company, purchases all of its colored roofing granule requirements from the Company (except for the requirements of its California roofing plant) under a requirements contract which was renewed for 1997 and is subject to annual renewal unless terminated by the Company or BMCA. In addition, in December 1995, U.S. Intec, Inc. ("USI") an indirect subsidiary of GAF and, as of January 1, 1997, a subsidiary of BMCA, commenced purchasing substantially all of its requirements for colored roofing granules from the Company (except for the requirements of its Stockton, California and Corvallis, Oregon plants) pursuant to a requirements contract which expires December 31, 1997. In 1996, BMCA and USI purchased a total of $50.5 million of mineral products from the Company, representing approximately 7% of the Company's total net sales and approximately 59% of the Company's net sales of mineral products. Sales by the Company to BMCA and USI totaled $45.8 and $42.5 million for 1995 and 1994, respectively.

The receivable from BMCA for sales of mineral products as of December 31, 1996 and 1995 was $3.5 and $2.7 million, respectively, and the receivable from USI for sales of mineral products at each of December 31, 1996 and 1995 was $.1 million.

Pursuant to a Management Agreement, which expires at the end of 1997, the Company provides certain general management, administrative, and facilities services to ISP Holdings and certain of its affiliates, including GAF, BMCA, USI, G-I Holdings and GFC. Charges by the Company for providing such services aggregated $4.9, $4.5 and $4.4 million for 1996, 1995 and 1994, respectively, and are reflected as reductions of "Selling, general and administrative" expense. The basis for such charges is an estimate of the costs the Company incurs to provide management services, including, but not limited to, executive, legal, tax, treasury and accounting services, and the costs to the Company of providing and maintaining facilities services at the corporate headquarters, which is owned by a subsidiary of the Company. In addition to the management services charge, BMCA paid approximately $.8 million to the Company in 1996 and $.7 million in each of 1995 and 1994, primarily for telecommunications and information services, and ISP Holdings, G-I Holdings and BMCA paid an aggregate of approximately $.5, $.2 and $.3 million in 1996, 1995 and 1994, respectively, to the Company for certain legal services, which in each case were not encompassed within the Management Agreement. In connection with the Separation Transactions, the Management Agreement was modified to incorporate such services, and, in that connection, the total charges for management fees were increased to an annual rate of $5.5 million, effective January 1, 1997.

See Note 2 for a discussion of the Tax Sharing Agreement.

Under the terms of the Credit Agreement, the Company or any of its subsidiaries are permitted to make loans to affiliates, and provide letters of credit issued for the benefit of such affiliates, up to an aggregate amount not to exceed $75 million outstanding at any time (see Note 6).

The Company and its subsidiaries also borrow from ISP Holdings and G-I Holdings and its subsidiaries at the same rates available to the Company under the Credit Agreement. Such borrowings outstanding from G-I Holdings at December 31, 1995 comprised $50.6 million, classified as current, and $67.2 million, classified as long-term pursuant to an interest-bearing note maturing in July 2001. Such borrowings from G-I Holdings were repaid in 1996, and, as a result of the Separation Transactions, loans between the Company and G-I Holdings are prohibited by ISP Holdings' debt instruments. At December 31, 1996, the Company had total borrowings from ISP Holdings of $62.6 million, $50 million pursuant to a note agreement maturing in December 2006 and $12.6 million pursuant to a note agreement maturing in July 2001.

Certain executive officers of the Company were granted stock appreciation rights relating to ISP Holdings' common stock. Compensation expense in connection with such stock appreciation rights is reflected in ISP Holdings' operating expense and was immaterial for 1996, 1995 and 1994, respectively.

ISP Holdings has issued options to certain employees to purchase shares of its Redeemable Convertible Preferred Stock; such shares are convertible, at the holder's option, into shares of common stock of ISP Holdings at a formula price. The common stock is subject to repurchase by ISP Holdings under certain circumstances at a price equal to current Book Value as defined. No expense is accrued in connection with the preferred stock options.

Note 10

BUSINESS SEGMENT INFORMATION

(Millions)	Year Ended December 31, 1996	1995	1994
Net sales:			
Specialty Chemicals	$ 587.2	$ 562.0	$ 487.2
Mineral Products(1)	85.6	86.1	81.1
Other	43.7	40.9	31.7
Net sales	$ 716.5	$ 689.0	$ 600.0
Operating income:			
Specialty Chemicals (2)	$ 117.9	$ 106.3	$ 80.6
Mineral Products	16.5	16.3	14.6
Other	1.6	4.5	4.0
Total operating income	$ 136.0	$ 127.1	$ 99.2
Identifiable assets:			
Specialty Chemicals (3)	$ 958.1	$ 953.5	$ 962.5
Mineral Products	154.5	154.6	158.5
Other	27.7	25.0	20.0
General Corporate (4)	176.6	179.8	110.3
Total assets	$ 1,316.9	$ 1,312.9	$ 1,251.3
Capital expenditures and acquisitions:			
Specialty Chemicals	$ 41.6	$ 31.1	$ 22.5
Mineral Products	9.5	6.0	8.3
Other	3.5	1.8	.3
Total	$ 54.6	$ 38.9	$ 31.1
Depreciation and goodwill amortization:			
Specialty Chemicals	$ 41.0	$ 38.6	$ 36.1
Mineral Products	9.6	9.7	9.3
Other	.9	.9	.8
Total	$ 51.5	$ 49.2	$ 46.2

(1) Includes sales to BMCA of $48.1, $45.7 and $42.5 million for 1996, 1995 and 1994, respectively, and sales to USI of $2.4 and $.1 million for 1996 and 1995, respectively.
(2) Does not include operating income of the Company's 50% ownership of GAF-Hüls. The Company's equity in the earnings of GAF-Hüls is reflected in the Consolidated Statements of Income as "Equity in earnings of joint venture" below Operating Income.
(3) Identifiable assets of Specialty Chemicals include the Company 50% ownership of GAF-Hüls. See Note 1.
(4) General Corporate assets primarily represent the Company's investments in trading, available-for-sale and held-to-maturity securities and other short-term investments, which are held for general corporate purposes and are not allocated to industry segments.

The Company manufactures a broad spectrum of specialty chemicals having numerous applications in consumer and industrial products encompassing such worldwide markets as pharmaceuticals, hair and skin care, plastics, agricultural, coatings and adhesives. The Company's mineral products business manufactures ceramic-coated colored roofing granules which are sold primarily to the North American roofing industry for use in the manufacture of asphalt roofing shingles. Over 50% of the Company's sales of mineral products are to BMCA (see Note 9). The Company also manufactures filter products and advanced materials.

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Note
11

GEOGRAPHIC INFORMATION

Results set forth below for foreign operations represent sales and operating income of foreign-based subsidiaries.

	Year Ended December 31,		
(Millions)	1996	1995	1994
Net sales:			
Domestic operations(1)	$ 361.0	$ 345.2	$ 306.4
Europe(2)	212.3	209.1	180.9
Asia-Pacific	102.9	101.2	83.4
Other foreign operations	40.3	33.5	29.3
Net sales	$ 716.5	$ 689.0	$ 600.0
Operating income:			
Domestic operations	$ 64.4	$ 57.9	$ 41.3
Europe	53.1	46.5	37.1
Asia-Pacific	17.5	20.2	16.6
Other foreign operations	1.0	2.5	4.2
Operating income	136.0	127.1	99.2
Equity in earnings of joint venture	5.6	5.4	2.0
Interest expense and other, net	(15.6)	(26.4)	(28.7)
Income before income taxes and extraordinary item	$ 126.0	$ 106.1	$ 72.5
Identifiable assets:			
Domestic operations	$ 948.4	$ 954.1	$ 974.3
Europe(3)	130.8	133.1	128.9
Asia-Pacific	41.4	32.2	28.5
Other foreign operations	19.7	13.7	9.3
General Corporate (4)	176.6	179.8	110.3
Total assets	$1,316.9	$1,312.9	$1,251.3

(1) Net sales-domestic operations excludes sales by the Company's domestic subsidiaries to foreign-based subsidiaries of $160.1, $140.9 and $135.1 million for 1996, 1995 and 1994, respectively.
(2) Net sales-Europe excludes sales by the Company's European subsidiaries to domestic and other foreign-based subsidiaries of $20.7, $19.9 and $12.8 million for 1996, 1995 and 1994, respectively.
(3) Identifiable assets-Europe include the Company's 50% ownership of GAF-Hüls. See Note 1.
(4) General Corporate assets primarily represent the Company's investments in trading, available-for-sale and held-to-maturity securities and other short-term investments, which are held for general corporate purposes.

Approximately 60% of the Company's international sales in 1996 were in countries in Western Europe and Japan which are subject to currency exchange rate fluctuation risks. See Note 1 for a discussion of the Company's policy to manage these risks. Other countries in which the Company has sales are subject to additional risks, including high rates of inflation, exchange controls, government expropriation and general instability.

Note 12
COMMITMENTS AND CONTINGENCIES

ISP Holdings is a holding company without independent businesses or operations and, as such, is dependent upon the cash flows of the Company in order to satisfy its obligations. Such obligations include $325 million principal amount of ISP Holdings' 9% Senior Notes due 2003 and $199.9 million principal amount of ISP Holdings' 9 3/4% Senior Notes due 2002. ISP Holdings expects to satisfy such obligations from, among other things, refinancings of debt, dividends and loans from the Company, as to which there are restrictions under the Credit Agreement and the indenture relating to the 9% Notes (see Note 6), and payments pursuant to the Tax Sharing Agreement (see Note 2). The Company does not believe that the dependence of ISP Holdings on the cash flows of the Company should have a material adverse effect on the operations, liquidity or capital resources of the Company.

Asbestos Litigation Against GAF

GAF and G-I Holdings have established reserves for asbestos bodily injury claims, as of December 31, 1996, in the amount of $333.8 million (before estimated present value of recoveries from products liability insurance policies of $190.5 million and related deferred tax benefits of $51.7 million). GAF and G-I Holdings have advised the Company that certain components of the asbestos-related liability and the related insurance recoveries have been reflected on a discounted basis in their financial statements, and that the aggregate undiscounted liability as of December 31, 1996, before estimated recoveries from products liability insurance policies, was $370.6 million. GAF and G-I Holdings have also advised the Company that they believe that their reserves adequately reflect their asbestos-related liabilities. GAF's and G-I Holdings' estimate of liability for asbestos claims is based on a pending settlement of future asbestos bodily injury claims (the "Settlement") becoming effective and on assumptions which relate, among other things, to the number of new cases filed, the cost of resolving (either by settlement or litigation or through the mechanism established by the Settlement) pending and future claims, the realization of related tax benefits, the favorable resolution of pending litigation against certain insurance companies and the amount of recoveries from various insurance companies.

Neither the Company nor the assets or operations of the Company, which was operated as a division of a corporate predecessor of GAF prior to July 1986, have been employed in the manufacture or sale of asbestos products. The Company believes that it should have no legal responsibility for damages in connection with asbestos-related claims.

Environmental Litigation

The Company, together with other companies, is a party to a variety of administrative proceedings and lawsuits involving environmental matters ("Environmental Claims") in which recovery is sought for the cost of cleanup of contaminated sites, a number of which are in the early stages or have been dormant for protracted periods.

The Company estimates that its liability in respect of all Environmental Claims, as of December 31, 1996, will be approximately $18.5 million, before reduction for insurance recoveries reflected on the Company's balance sheet (discussed below) of $6.9 million ("estimated recoveries"). The gross environmental liability is included within "Accrued liabilities" and "Other liabilities", and the estimated recoveries are included within "Other current assets" and "Other assets".

In the opinion of the Company's management, the resolution of the Environmental Claims should not be material to the business, liquidity, results of operations, cash flows or financial position of the Company. However, adverse decisions or events, particularly as to the liability and the financial responsibility of the Company's insurers and of the other parties involved at each site and their insurers, could cause the Company to increase its estimate of its liability in respect of such matters. It is not currently possible to estimate the amount or range of any additional liability.

After considering the relevant legal issues and other pertinent factors, the Company believes that it will receive the estimated recoveries and it may receive amounts substantially in excess thereof. The Company believes it is entitled to substantially full defense and indemnity under its insurance policies for the Environmental Claims, although the Company's insurers have not affirmed a legal obligation under the policies to provide indemnity for such claims.

The estimated recoveries are based in part upon interim agreements with certain insurers. The Company terminated these agreements in 1995 and commenced litigation seeking amounts substantially in excess of the estimated recoveries. While the

Company believes that its claims are meritorious, there can be no assurance that the Company will prevail in its efforts to obtain amounts at or in excess of the estimated recoveries.

In June 1989, the Company entered into a Consent Order with the New Jersey Department of Environmental Protection (NJDEP) requiring the development of a remediation plan for its closed Linden, New Jersey plant and the maintenance of financial assurances (currently $7.5 million) to guarantee the Company's performance. In April 1993, NJDEP issued orders which require the prevention of discharge of contaminated groundwater and stormwater from the site and the elimination of other potential exposure concerns. The Company believes, although there can be no assurance, that, taking into account its plans for development of the site, it can comply with the NJDEP order at a cost of no more than $7.5 million (in connection with which the Company anticipates insurance recoveries of approximately $5 million).

Lease Commitments

Leases for certain equipment at two of the Company's mineral products plants are accounted for as capital leases and are included in "Property, plant and equipment, net", at December 31, 1996 and 1995 in the amount of $2.3 and $2.1 million, respectively. The Company also has operating leases for transportation, production and data processing equipment and for various buildings. Rental expense on operating leases was $8.7, $8.2 and $7.4 million for 1996, 1995 and 1994, respectively. Future minimum lease payments for properties which were held under long-term noncancelable leases as of December 31, 1996 were as follows:

(Thousands)	Capital Leases	Operating Leases
1997	$ 735	$ 2,865
1998	694	1,985
1999	399	1,330
2000	346	756
2001	251	598
Later years	49	988
Total minimum payments	2,474	$ 8,522
Less interest included above	(406)	
Present value of net minimum lease payments	$ 2,068	

Other Commitments

The Company intends to acquire or develop a European manufacturing facility to meet the needs of the Company's European business. While the originally anticipated commencement date of the European project has been deferred because the Company has been able to implement cost efficient capacity expansions at its existing manufacturing facilities, based upon its current analyses of additional opportunities for expansion of existing capacity, end-use demand, and other relevant factors, the Company intends to proceed with the project by the end of 1997. Costs capitalized to date related to this project are included in "Construction in progress". The Company anticipates utilizing internally generated funds, existing credit facilities and/or independent financing to fund the cost of the project.

The Company has received conditional site designation from the New Jersey Hazardous Waste Facilities Siting Commission for the construction of a hazardous waste treatment, storage and disposal facility at its Linden, New Jersey property, and has received approval from the New Jersey Turnpike Authority for a direct access ramp from the Turnpike to the site. Both the site designation and the access ramp approval have been appealed to the Courts by the City of Linden. The Company estimates that the cost of constructing the facility will be approximately $100 million and, if approved, the facility is anticipated to be in operation three years after commencement of construction. The Company anticipates utilizing internally generated cash and/or seeking project or other independent financing therefor. Accordingly, the Company would not expect such facility to impact materially its liquidity or capital resources.

Report of Independent Public Accountants

To International Specialty Products Inc.:

We have audited the accompanying consolidated balance sheets of International Specialty Products Inc. (a Delaware corporation and an 83.5% owned subsidiary of ISP Holdings Inc.) and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Specialty Products Inc. and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Arthur Andersen LLP
Roseland, New Jersey
February 10, 1997

Supplementary Data (unaudited)

Quarterly Financial Data (unaudited)

(Millions, except per share amounts)	1996 by Quarter First	Second	Third	Fourth	1995 by Quarter First	Second	Third	Fourth
Net sales	$185.6	$185.0	$173.6	$172.3	$179.9	$182.6	$167.8	$158.7
Cost of products sold	112.9	107.1	100.3	98.6	113.2	109.2	99.9	92.4
Gross profit	$ 72.7	$ 77.9	$ 73.3	$ 73.7	$ 66.7	$ 73.4	$ 67.9	$ 66.3
Operating income	$ 34.2	$ 38.0	$ 33.5	$ 30.3	$ 31.2	$ 36.2	$ 31.8	$ 27.9
Income before income taxes	$ 31.3	$ 35.6	$ 31.3	$ 27.8	$ 24.1	$ 29.6	$ 27.5	$ 24.9
Income taxes	(11.4)	(13.0)	(11.2)	(9.7)	(9.0)	(11.1)	(9.9)	(8.7)
Net income	$ 19.9	$ 22.6	$ 20.1	$ 18.1	$ 15.1	$ 18.5	$ 17.6	$ 16.2
Earnings per common share(1)	$ .20	$ .23	$ .21	$ .19	$ .15	$ .19	$ .18	$ .17

(1) Earnings per share are calculated separately for each quarter and the full year. Accordingly, annual earnings per share will not necessarily equal the total of the quarters.

MARKET FOR COMMON STOCK

The following information pertains to the Company's common stock, which is traded on the New York Stock Exchange. As of February 21, 1997, there were 297 holders of record of the Company's outstanding common stock.

(Dollars)	1996 by Quarter First	Second	Third	Fourth	1995 by Quarter First	Second	Third	Fourth
Price Range of Common Stock:								
High	$ 13 1/4	$12 5/8	$11 3/8	$12 3/4	$ 7 5/8	$ 8 5/8	$ 9 7/8	$11
Low	10 1/8	10 3/4	9 5/8	9	6 3/8	6 5/8	8 3/8	8 1/8

The Company announced in the second quarter of 1995 that its Board of Directors had eliminated the 2 1/2 cents per share semi-annual dividend on the Company's common stock. The declaration and payment of dividends is at the discretion of the Board of Directors of the Company. See Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 6 to Consolidated Financial Statements for information regarding restrictions on the payment of dividends. Any decision to resume the payment of dividends, and the timing and amount thereof, is dependent upon, among other things, the Company's results of operations, financial condition, cash requirements, prospects and other factors deemed relevant by the Board of Directors. Accordingly, there can be no assurance that the Board of Directors will resume the declaration and payment of dividends or as to the amount thereof.

Board of Directors, Corporate Officers and Executive Management

BOARD OF DIRECTORS

Charles M. Diker
Chairman of the Board,
Cantel Industries Inc.

Carl R. Eckardt
Executive Vice President,
Corporate Development
International Specialty Products Inc.

Harrison J. Goldin
Partner,
Goldin Associates, L.L.C.

Peter R. Heinze, Ph.D.
President and Chief Operating Officer,
International Specialty Products Inc.

Samuel J. Heyman
Chairman of the Board and
Chief Executive Officer,
International Specialty Products Inc.

Sanford Kaplan
Private Investor

Burt Manning
Chairman of the Board,
J. Walter Thompson Company

CORPORATE OFFICERS AND EXECUTIVE MANAGEMENT

Executive Officers:

Samuel J. Heyman *
Chairman of the Board and
Chief Executive Officer

Peter R. Heinze, Ph.D.*
President and
Chief Operating Officer

Carl R. Eckardt *
Executive Vice President,
Corporate Development

James P. Rogers *
Executive Vice President,
Finance and Treasurer

Senior Vice Presidents:

Paul J. Aronson *
Senior Vice President,
Taxes

Louis S. Goldberg *
Senior Vice President,
Headquarters Administrative Services

Richard B. Olsen *
Senior Vice President
and General Manager,
Mineral Products

James M. Potter *
Senior Vice President,
and Business Director,
Pharmaceutical, Agricultural
and Beverage, and Fine Chemicals

James J. Strupp *
Senior Vice President,
Human Resources

Richard A. Weinberg *
Senior Vice President,
General Counsel and Secretary

Vice Presidents:

S. Dan Andrews
Vice President,
Engineering

Jay M. Ansell, Ph.D.
Vice President,
Product Stewardship

Harry R. Asplund *
Vice President,
Strategic Capital Planning

William H. Baum
Vice President,
Worldwide Sales and Field Marketing

Warren Bishop
Vice President and General Manager,
Asia-Pacific

Joseph A. Boelter *
Vice President and Business Director,
Industrial Markets

Alan J. Carlin *
Vice President,
Manufacturing and Technology

Gary Castellino
Vice President,
Information Services

Roger J. Cope *
Vice President and Managing Director,
Asia-Pacific

William Cowherd II, Ph.D.
Vice President,
Materials Management

Cheryl Crawford *
Vice President and Business Director,
Personal Care

Allan Dinkoff *
Vice President and
Deputy General Counsel,
Litigation

Robert J. Flugger
Vice President,
Risk Management

Sunil K. Garg, Ph.D., J.D.
Vice President,
Environmental, Health and Safety

Geoffrey A. Gaywood
Vice President and Managing Director,
Europe

Lawrence J. Grenner
Vice President, Marketing
Personal Care

Jeffrey J. Kaplowitz *
Vice President,
Employee Services

Randall R. Lay *
Vice President and
Chief Financial Officer

Anton McElevey *
Vice President and General Manager,
Worldwide Filter Products

Robert M. Mininni, Ph.D.
Vice President,
Research and Development

John F. O'Keefe, Jr.
Vice President,
Purchasing

Mark A. Presto *
Vice President and Director,
Corporate Finance

Jonathan H. Stern *
Vice President,
Strategic Business Services

Paul Taylor, Ph.D.
Vice President and
General Manager,
ISP Fine Chemicals Inc.

Alvin Yanofsky *
Director of Taxes and
Assistant Secretary

* *Corporate Officers*

International Specialty Products Facilities

UNITED STATES

● **MANUFACTURING FACILITIES**
Alabama, Huntsville
Kentucky, Calvert City
Missouri, Annapolis
New Jersey, Belleville
New Jersey, Chatham
Ohio, Columbus
Pennsylvania, Blue Ridge Summit
Tennessee, Memphis
Texas, Seadrift
Texas, Texas City
Wisconsin, Pembine

▲ **RESEARCH LABORATORIES**
Alabama, Huntsville
Kentucky, Calvert City
Maryland, Hagerstown
New Jersey, Belleville
New Jersey, Chatham
New Jersey, Wayne
Ohio, Columbus
Texas, Texas City

■ **SALES OFFICES**
California, Sherman Oaks
Illinois, Lombard
Maryland, Hagerstown
New Jersey, Belleville
New Jersey, Bridgewater
New Jersey, Chatham
New Jersey, Wayne
North Carolina, Charlotte
Ohio, Cleveland
Ohio, Columbus
Tennessee, Memphis
Texas, Dallas

INTERNATIONAL

● **MANUFACTURING FACILITIES**
Belgium, Sint-Niklaas
Brazil, São Paulo
Canada, Mississauga, Ontario
Canada, Oakville, Ontario
Germany, Hamburg
Singapore

▲ **RESEARCH LABORATORIES**
China, Shanghai
Germany, Cologne
Great Britain, Guildford
Singapore

■ **SALES OFFICES**
Argentina, Buenos Aires
Australia, Box Hill, Victoria
Australia, Silverwater, N.S.W.
Austria, Vienna
Belgium, Sint-Niklaas
Brazil, São Paulo
Bulgaria, Sofia
Canada, Mississauga, Ontario
China, Beijing
China, Chengdu
China, Guangzhou
China, Shanghai
Czech Republic, Prague
Denmark, Copenhagen
Finland, Kuaniainen
France, Paris
Germany, Cologne
Great Britain, Manchester
Hong Kong
Hungary, Budapest
India, Bombay
India, Hyderabad
Indonesia, Jakarta
Ireland, Dublin
Italy, Milan
Japan, Osaka
Japan, Tokyo
Korea, Seoul
Malaysia, Kuala Lumpur
Mexico, Mexico City
Netherlands, Schiedam
New Zealand, Auckland
Norway, Oslo
Poland, Warsaw
Puerto Rico, Rio Piedras
Russia, Moscow
Singapore
Spain, Barcelona
Sweden, Årsta
Switzerland, Baar
Taiwan, Taipei
Thailand, Bangkok
Turkey, Istanbul
Venezuela, Caracas

✧ **JOINT VENTURE MANUFACTURING FACILITIES**
Germany, Marl
GAF-Hüls Chemie GmbH
India, Nagpur
Chemfields Pharmaceuticals Pvt. Ltd.

Shareholder Information

ANNUAL MEETING

The 1997 Annual Meeting of Shareholders is scheduled to be held at 10:00 a.m., Thursday, May 1, 1997 at:
Weil, Gotshal & Manges LLP
767 Fifth Avenue
25th Floor, Conference Room 25K
New York, New York 10153

FORM 10-K

A copy of the Company's Annual Report on Form 10-K (including financial statements and schedules), as filed with the Securities and Exchange Commission, may be obtained free of charge by writing to:
International Specialty Products
Shareholder Relations Department
1361 Alps Road
Wayne, New Jersey 07470
Or you may call: 1-800-526-5315

STOCK TRANSFER AGENT AND REGISTRAR

The Bank of New York
101 Barclay Street
New York, New York 10007
Telephone (800) 524-4458

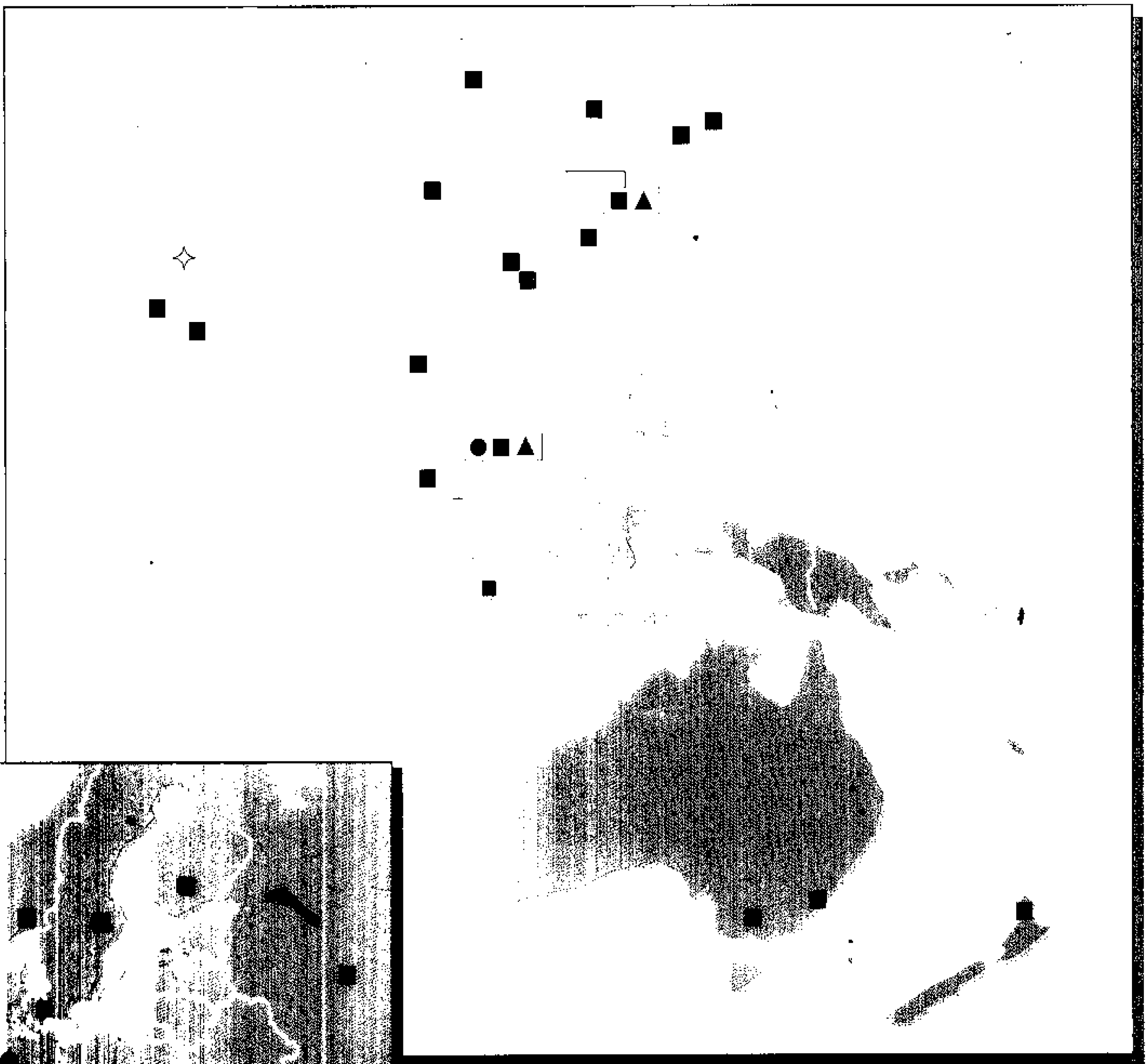
INVESTOR RELATIONS

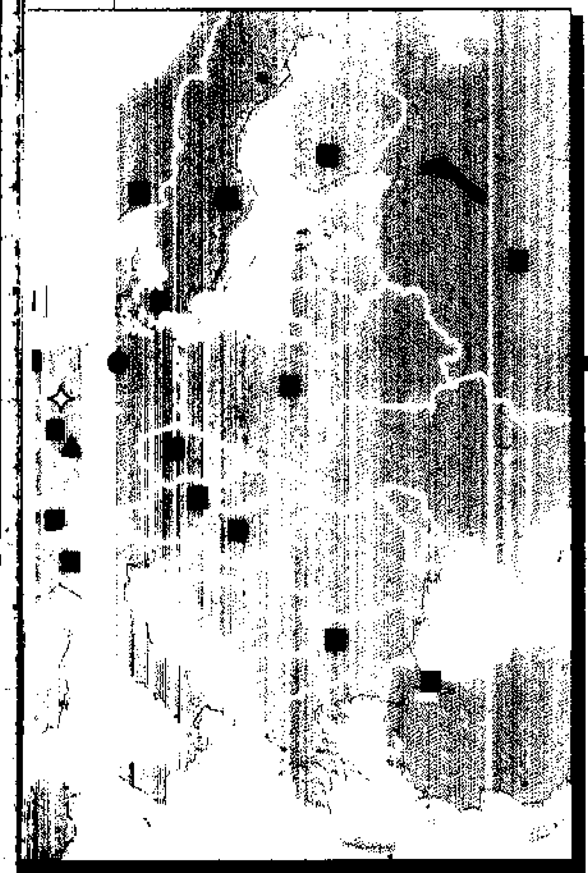
Inquiries should be directed to:
Christopher W. Nolan
Director, Corporate Development and Investor Relations
International Specialty Products
1361 Alps Road
Wayne, New Jersey 07470
Tel: (201) 628-3463 *before June 1*
(973) 628-3463 *after June 1*
e-mail: cnolan@ispcorp.com

ISP NYSE
International Specialty Products Inc. common stock is listed on the New York Stock Exchange (symbol: "ISP").

Visit our Internet website at http://www.ispcorp.com

Products Worldwide





KEY

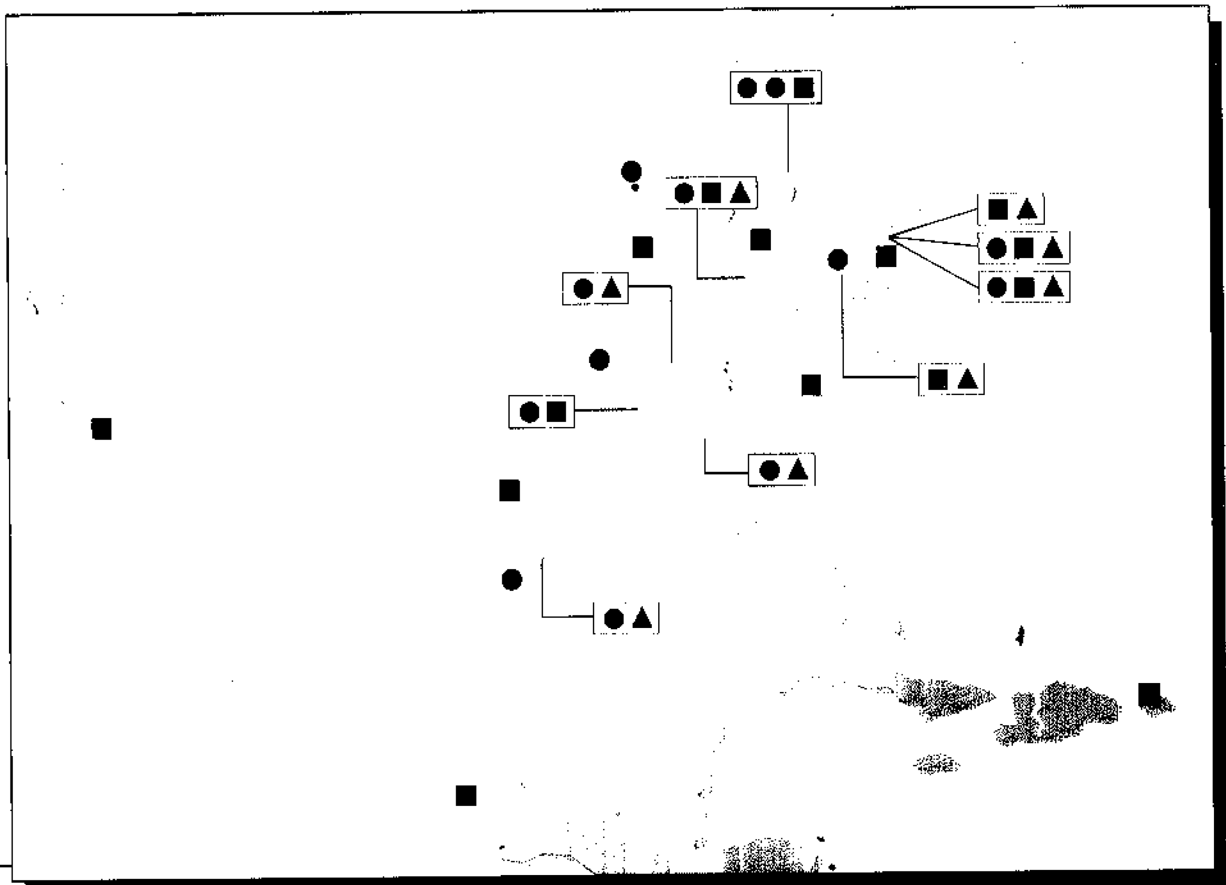
● MANUFACTURING FACILITIES

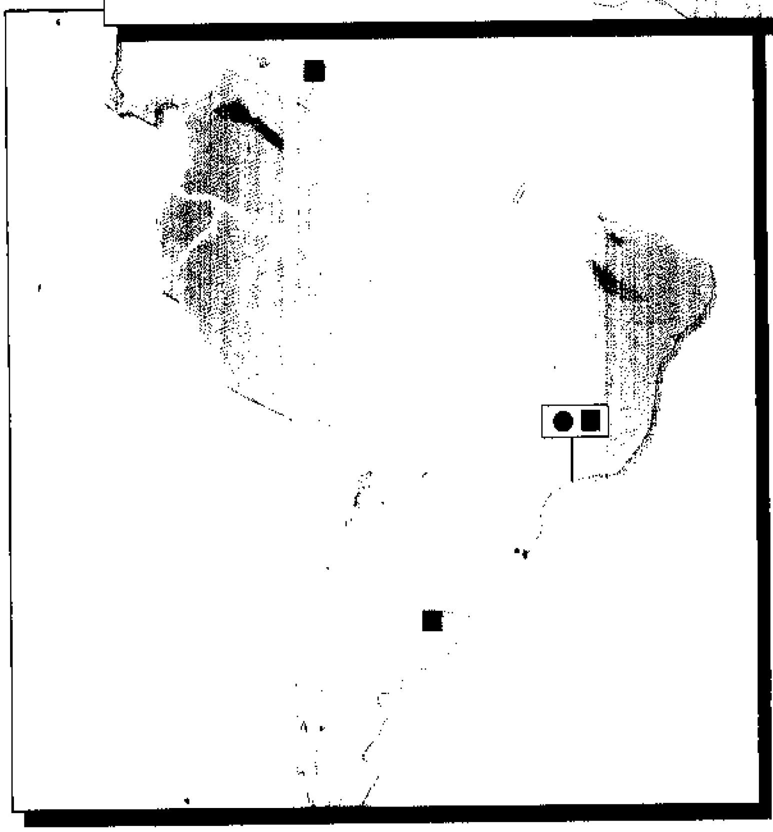
▲ RESEARCH LABORATORIES

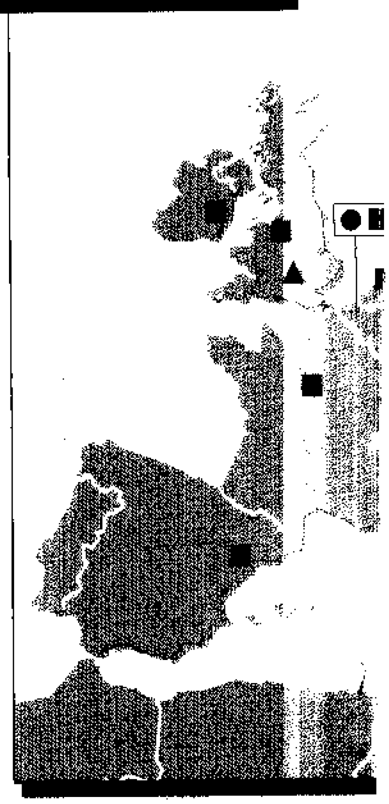
■ SALES OFFICES

✧ JOINT VENTURE MANUFACTURING FACILITIES

ISP International Specialty







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1361 Alps Road
Wayne, New Jersey 07470